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Bihar and Orissa
Provincial Banking
Enquiry Committee
1929-30

VOLUME II.

Evidence:



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General Questionnaire of the Bihar and Orissa Provincial Banking Enquiry Committee.

(The following memorandum is published in order to assist witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised.)

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. Describe the present system by which the agriculturist in your district or province obtains finance—

- (a) for expenses during cultivation,
- (b) for capital and permanent improvements, and
- (c) for other special needs, e.g., failure of monsoon, for land revenue, etc.

What are the rates of interest charged in your district or province in respect of advances, the period for which loans are taken, the nature of the security given and accepted (e.g., standing crops, etc.), and other conditions attaching to the grant of such loans?

Describe the part played in agricultural finance by Government, the Imperial Bank of India, the Joint Stock Banks, Co-operative Banks, the Indigenous Banks and Bankers, professional moneylenders, merchants and dealers, and other organisations giving credit (e.g., companies trading in fertilisers, etc.).

Can you give an estimate of the total amount of capital required for the various purposes stated above for your district or province?

State defects, if any, in the present system and the reasons for the existence of such defects. Do you suggest any remedies?

Is there co-ordination among the various credit agencies including Government, and is there scope for improvement in that direction?

2. Describe the present method of marketing principal crops in your district or province.

What in your opinion are the possibilities of forming pools and of co-operative effort generally in marketing produce?

Describe the credit facilities required for the financing of products during marketing and the facilities actually existing.

In regard to such facilities is there any special difference as between internal trade and foreign trade?

What is the part played by the different classes of banks and bankers and merchants and dealers during the process of marketing?

What are the existing facilities available to the public, including banks and bankers, for internal remittance?

State any defects in the existing system and any suggestions for improvement.

Describe the part played by negotiable instruments in the internal trade of the province.

Have you any suggestions to make for the more extensive use of bills (e.g., by reduction of duty on bills)?

What are the different classes of *hundis* current in your part of the country? What are the peculiarities of each? Please give sample wording.

Have you any suggestions for the amendment of the Negotiable Instruments Act by which the public and the bankers handling *hundis* might be better protected or benefited?

Are *hundis* emanating from your locality discounted in your local centre or are they sent to a provincial centre and discounted there, or are they held by middlemen, merchants or commission agents?

What different kinds of instruments of ownership of goods and produce (e.g., railway receipts) and documents are employed for raising money during the process of marketing?

Are any difficulties experienced in the use of these instruments and have you any suggestions to make with a view to removing those difficulties?

What in your opinion are the possibilities of operating licensed warehouses in India either on the lines of the system which exists in the United States of America or otherwise?

Do you think there is any need for Government assistance in the matter?

3. In your district what is the value of land per acre for different kinds of crops?

What are the factors affecting such value? In your reply, please distinguish between—

- (a) value of land in Government auction for non-payment of revenue;
- (b) value of land in the event of sale by court decree;
- (c) value of land in purchase by private negotiation.

4. Is there any legal impediment to mortgage of land and agricultural holdings in your province? Are there any land mortgage banks or agricultural banks in your province or any other banks for the provision of long term credit?

State what you know of their method of work and of raising capital.

If no such institution exists in the province, suggest the lines on which such institutions could be established and worked to the advantage of the landholders and tenants of your province.

Do you suggest any measures for—

- (a) improvement in the record-of-rights and title of ownership so as to simplify reference, and to avoid possibilities of disputes and counterclaims by parties other than those who are the clients of the Bank,
- (b) simplification of the process of foreclosure and sale by the Mortgage Bank in the event of non-payment,
- (c) reduction of costs of reference to the record-of-rights and of registration of records and of the process at law so as to reduce the burden on the good constituents of the Bank in respect of charges incurred on account of defaulters?

Should the working capital of the proposed Mortgage Bank be derived largely from—

- (a) deposits,
- (b) funds from central institutions, or
- (c) debenture bonds?

Should debenture bonds carry any Government guarantee either for principal or interest or for both?

If so, what measures would you suggest to secure Government against unnecessary loss?

On what terms should Agricultural Mortgage Banks raise monies under each of the abovementioned heads, with or without Government guarantee, and on what terms should they lend out money so as to cover their expenses?

Please state any other suggestions for the adequate provision of long term credit against sound security.

5. In order to devise measures for the increase of credit facilities to the agricultural classes it is necessary to reach an estimate as accurate as possible of the existing indebtedness of these classes.

Do you know of any such estimate for a village or a district in your province, or for the whole province?

In what manner can such estimate be obtained with reasonable accuracy?

In such an estimate please distinguish between—

- (a) the amount of debt with land as security which is in the form of a registered mortgage,
- (b) the amount of debt which is concealed in the form of a judicial sale to circumvent the provisions of Acts such as the Deccan Agriculturists Relief Act,
- (c) the amount of debt which is incurred against any other assets, such as the village house, ornaments, ploughs and other agricultural implements, crops and produce, or debt which is given on the general security of all the assets without a specific pledge.

Please state wherever possible the purposes for which the debt was incurred, such as

- (a) the repayment of earlier debts,
- (b) marriage and other social occasions,
- (c) famine and other kinds of distress,
- (d) payment of land revenue,
- (e) growth of the debt by compound interest, interest not having been paid,
- (f) seeds and manure,
- (g) improved agricultural implements,
- (h) sinking of wells and agricultural improvements.

Please indicate also to whom this debt is largely due and whether the creditors are Government, Banks, Co-operative Societies, or indigenous bankers and professional money-lenders.

State what you know of the rates of interest charged, the methods used for calculating it and for enforcing the payment of the debt.

Do you think a large number of people who are efficient farmers, are being turned into tenants for a period, or tenants at will through the process of the enforcement of the old debts and landed property passing on into the hands of the creditors?

If this process is going on, does it take away from the actual cultivator the incentive to produce more and in an efficient and better manner?

6. Give some idea of the number of small subsidiary industries allied or supplemental to agriculture existing in your province, such as rice milling, dairy farming, gur making, garden produce, cotton ginneries, sugar refineries, hand spinning, etc.

Can you suggest methods by which any such industries could be encouraged and by which the producer might be enabled to get a better return for his produce?

Can you suggest any enterprises which may give employment to the farmer during seasons when he cannot make full use of his time on his farm and thus enable him to supplement his income and to raise his standard of living?

What would be the best method of securing working capital for such enterprises?

What financial machinery do you suggest for this purpose?

7. State what you know of the relations that exist between the Co-operative Banks and the other banks in the country, namely, the Imperial Bank of India, the Joint Stock Banks and the Indigenous Banks.

Describe any existing difficulties in the matter of finance in the case of Co-operative societies both in regard to short and long term capital.

Can you give an estimate of the amount of extra capital required for financing Co-operative movement in your district or province?

Is there any competition in your district or province between the Co-operative Banks and Joint Stock Banks?

If so, to what extent and in what direction?

Have you any views regarding the possibility and desirability of granting financial concessions in order to stimulate the growth of the Co-operative movement (*e.g.*, by extension of special exemption from income-tax to genuine Co-operative Societies, inclusion of debentures issued by Provincial Co-operative Banks in the list of trustee securities, etc.)?

II. INDIGENOUS BANKING.

(*Note.*—By indigenous banking is meant all banks and bankers other than the Imperial Bank of India, the Exchange Banks, Joint Stock Banks and Co-operative Banks. It includes any individual or private firm receiving deposits, dealing in *hundis* and lending money.)

1. State what you know of the functions of the indigenous bank or banker in your district or province enumerating all kinds of business the bank or banker transacts?

2. How and to what extent does an indigenous bank or banker in your district or province assist in financing agriculture, trade and industry?

3. State what you know of the organisation of the indigenous banking system in your district or province with regard to—

(a) the amount of capital invested,

(b) the volume of their business,

(c) their expenses, and

(d) the relations between one indigenous bank and another and between indigenous banks and other banks in the country, (*viz.*) the Imperial Bank of India, the Joint Stock Banks and the Co-operative Banks.

4. State what you know of the various forms of *hundis* and other credit instruments used by the indigenous banks and bankers and the extent of their use. Give sample copies of any of the *hundis*, promissory notes, deposit receipts, etc., used in your locality.

5. State what you know of the indigenous bankers' methods of granting loans and allowing cash credits and the terms and nature of these loans and cash credits.

What are the means by which the indigenous banks and bankers provide themselves with funds to meet their demands?

What are the rates of interest allowed on various kinds of deposits received by them?

6. What are the rates of interest either in money or in kind which the agricultural community has to pay at present to the indigenous banker?

In what manner do you suggest these rates could be brought down by better organisation?

Would the reduction of such rates confer great benefit on the agricultural community and increase its resources thereby leading either to an improvement in the standard of living or enabling them to spend more on agricultural improvements, better agricultural implements, etc.?

7. Is there a prejudice in your locality against the indigenous bankers?

Are these bankers sufficiently protected in law?

Is there any legal or other facility which can be extended to them?

Are the dealings of this class of bankers with their clientele conducted on sound lines?

If not, indicate the existing defects, making suggestions for remedying them.

8. Would you suggest any means of making this class of bankers more serviceable to the community?

Could you suggest any means by which the indigenous banking system in India could be improved and consolidated?

Do you recommend any special facilities to be given to this class for this purpose?

What do you think would be the attitude of the indigenous banking community toward the introduction of any measures for regulating their operations and for giving publicity to the same?

9. After making allowance for the legal expenses, management charges, losses through default and losses through foreclosure, can you give an idea of the net return to the indigenous banks and bankers on their capital?

10. Please state whether the indigenous banks and bankers are able to meet all demands for accommodation or whether they are obliged to refuse any either on account of the unacceptable nature of the security offered or owing to insufficiency of their working capital?

11. How in your opinion should the indigenous banking system be linked with the central money market and provincial capitals?

Would you suggest the establishment of a branch of a Joint Stock Bank, or a branch of a Central Reserve Bank, or a local Bank with local directorate, in each district with which the indigenous banking system may be connected?

In what manner could such a bank inspire the confidence of the indigenous bankers and be able to utilise the local knowledge and experience of the latter?

How is the competition of such a bank with the indigenous bankers to be avoided?

12. Do you think there is a large amount of money in the districts in the hands of indigenous bankers which does not find employment throughout the year?

Do you think that owing to this cause any large amount of money is flowing to the provincial capital either for long or for short periods?

Do you think any kind of improvement in the organisation of lending or borrowing can be made by which these funds instead of flowing to the provincial capitals would find remunerative employment in the districts and thereby benefit the districts?

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. What are the existing banking resources in the province?

Can you state the amount of additional capital, if any, required?

What are the means or institutions in existence for encouraging savings and investment habit?

Are the public provided with full facilities for the investment of their savings?

Can the existing facilities be improved in any way or extended in the smaller interior places?

Can you give any useful information in regard to the habits of the people of India to invest in silver and gold?

2. Are Postal Cash Certificates popular in your district or province and can any steps be taken to increase their popularity?

Do present interest rates of Cash Certificates require revision and do existing terms of issue in any way need change?

Do Savings Banks afford all possible facilities to the Public?

What classes of population resort to such forms of investment?

Can anything be done to attract other classes?

Have you anything to say regarding the alleged competition of Government with Banking institutions and bankers in regard to deposits by their attractive rates on Postal Cash Certificates and Treasury Bills?

3. State the existing facilities for purchase and sale of Government securities afforded by Government, the Imperial Bank of India and other Banks. Are you in favour of granting any special facilities to the small agriculturists and the small investors of the country to take up some form of Government security? If so, state what special facilities you recommend?

State the existing facilities for purchase and sale of securities other than Government securities, afforded by the various financial agencies.

Can you indicate clearly the habits of various groups of people in your district or province with reference to monies which come into

their hands by sale of produce or through any other cause? Where do they keep this money and for what purposes and in what manner, do they use it?

Do the farmers lend to fellow agriculturists and on what terms? How do they invest surplus money in a prosperous year? Give any information you can regarding the amount, growth and distribution of capital among the indigenous population.

4. State what you know about the growth of cheque-habit.

What has been the effect of the abolition of stamp duty on cheques?

What classes of population use cheques? Have you any suggestions to make for further promoting the cheque habit (*e.g.*, payment of Government servants and Bank employees above Rs. 100 by cheques)?

Have you any suggestions to make regarding the use of vernacular scripts in banking?

5. Do you support the view that the banking and investment habit in India is of very slow growth?

If so, to what causes do you attribute it?

Have you any suggestions to make regarding the various possible means of educating the people of the country to invest their savings in productive undertakings (*e.g.*, propaganda by Government in regard to Government loans for capital expenditure, etc.)?

As far as you know, what has been the result of the opening of new branches in recent years by the Imperial Bank of India?

Supplementary Questions.

Question 1.—Describe the part played by the different classes of Banks and Bankers and Importing and Exporting firms in the financing of the Foreign Trade of India during the following stages:—

(a) Export trade:—

(i) From the village to the Mandi.

(ii) From the Mandi to the exporting ports.

(b) Import trade:—

(i) From the importing ports to the distributing centres in India, such as Amritsar, Delhi, Cawnpore, etc.

(ii) From the distributing centres to the consumer.

Question 2.—What are the terms on which the financing of trade during the above stages is done?

Are any difficulties experienced in connection with the above financing and have you any suggestions to make for removing those difficulties and for improving in any way the existing financial facilities available for the movement of imported and exportable articles?

Question 3.—It has been suggested that the grower of produce in India does not get the full value for his produce on account of the speculative buying and selling activities of firms and companies who deal in the

export trade and by the control of prices by these and other bodies. What are your views on this suggestion? Please supplement your views by any facts and figures within your knowledge. Have you any observations to make with a view to ensure a better return to the growers of produce in India?

Additional Questions for the Bihar and Orissa Provincial Banking Enquiry Committee.

1. Do you find that in the part of the province you know the native born inhabitants are backward in banking activity as compared with Indians from other parts of India? If so, what are the reasons?

2. Are branches of Joint Stock Banks, whose head offices are outside the province, to be found in your part of the province? If so, do they attract savings and export them for use outside the province which would otherwise be used within the province? Would you regard this as an evil, and if so, do you see any way to remedy it?

3. (a) Could the larger rural Post Offices, *e.g.*, those at subdivisional headquarters extend their banking business, which already covers remittance, and Savings Bank accounts, by accepting current accounts on which customers could draw by cheque?

Should Government undertake this business pending the establishment of private Banks commanding confidence in rural areas?

(b) Would it be possible to link the indigenous banking system with the state post office banking system by entrusting, with provisions for adequate control, to such Post Offices another banking function, *viz.*, the discounting of credit paper (*hundis* or other negotiable instruments) drawn by local merchants or money-lenders, if adequately backed by persons of substance or supported by collateral security? If so, what limitations and safeguards and what forms of control would you suggest?

4. Do you think there is any scope for banks or other credit agencies such as pawnshops lending on valuables, *e.g.*, gold and silver ornaments? If so, should such institutions be state-owned, state-aided or merely subject to some state regulations?

5. Is it your experience that *mahajans* mix up in a single account with a client purely trading transactions, such as sale of cloth or grain, with banking transactions? If so, does that practice lead to evils which are capable of remedy by legislation, *e.g.*, by insisting on separate accounts? Would such a separation inspire more confidence in the money-lending branch of the business?

6. Could Indigenous Bankers be more adequately protected by pooling information about their clients? Is there any obstacle to Indigenous Bankers combining for this purpose, *e.g.*, the existing law of libel?

7. Is it possible or desirable to set up a class of licensed or registered money-lenders with special facilities and privileges whose

operations may be controlled by the state in the interests of agriculture, small scale trade and small scale industries? If so, what restrictions would you place on their business? Would you restrict their lending to productive purposes only?

8. Is it your experience that an excessive proportion of savings is invested in land, thereby forcing up the price of land beyond the value which the returns therefrom would justify?

9. How do small urban industries, small retail traders and small contractors obtain their finance? Have you any suggestions to make for improving their facilities?

10. Is any use made of the Usurious Loans Act (X of 1918) in your part of the province with which you are familiar? If not, can you explain why? Are there any other restrictions on usury in force, and if so, are they effective?



सत्यमेव जयते

MINUTES OF EVIDENCE

TAKEN BEFORE THE

BIHAR AND ORISSA PROVINCIAL BANKING ENQUIRY COMMITTEE

Saturday, November 23, 1929

PATNA

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Reverend J. Z. HODGE.

RAI BAHADUR DURGA PRASAD, M.A.,

Registrar of Co-operative Societies, Bihar and Orissa.

MEMORANDUM

(1) RELATIONS THAT EXIST BETWEEN THE CO-OPERATIVE BANKS AND THE OTHER BANKS.

There exists an apex bank called the Bihar and Orissa Provincial Co-operative Bank, Limited, to connect the co-operative banks with the open money market. This Provincial Bank, founded in the year 1914, serves not only as a balancing centre of the surpluses and deficits of co-operative banks but also serves as a channel between the co-operative movement and the Imperial Bank and the Joint Stock Banks. There are at present 67 central banks throughout the province whose main function is to provide the necessary finance for all the co-operative activities in the respective area of the banks. These central

banks try to secure the necessary finance by means of local deposits. By local deposits are meant deposits from persons resident in the area of operations of the bank. Generally speaking the well-established central banks are able to meet their requirements by local deposits and have very little need of assistance from the Imperial Bank or the Joint Stock Banks. But central banks maintain current accounts with the branches of the Imperial Bank and certain Joint Stock Banks and also open savings accounts in the Postal Savings Banks. Beyond current and savings account transactions, the central banks have no other relationship with the Imperial Bank or the Joint Stock Banks or the Postal Savings Banks.

At almost all places where there are branches of the Imperial Bank, the central banks stationed there have opened current accounts. The opening of such accounts is very helpful to the central banks as it enables them to keep some fluid reserve near at hand instead of keeping all its fluid reserve locked up in the Provincial Bank which is at some distance from them. For instance, if a central bank has a cash balance of Rs. 10,000 it is more useful to keep a couple of thousands in a bank situated at the same place instead of sending the whole amount to the Provincial Bank. Of course the central banks cannot afford to keep all their cash balances in the local banks because the rate of interest given by local banks for current accounts is much less than what the Provincial Bank allows the central banks. The Provincial Bank gives 4 per cent. whereas the Imperial Bank gives nothing on current account while some of the Joint Stock Banks like the Bank of Behar and the Chota Nagpur Banking Association allow 2 per cent. It is always necessary for the central banks to keep a certain amount in fluid reserve at their headquarters. Although several of the banks have got their own buildings and have got safes embedded in those buildings but they cannot afford to maintain proper guard and it is, therefore, unsafe for them to keep large cash in their safes. The central banks, therefore, keep only a very small amount of their balance in their own safes and have to fall back upon using any other bank at the place for depositing a certain percentage of their cash balance. The only Joint Stock Banks with which they have got this kind of relationship are the Bank of Behar, Limited, at Chapra and Muzaffarpur, the Chota Nagpur Banking Association at Ranchi and Hazaribagh and the Puri Bank.

To the Provincial Bank is assigned the main function of obtaining money then necessary from the money market. This function it discharges by establishing connections with the Imperial Bank of India. The Imperial Bank has granted the following cash credit and overdraft account to this bank :—

- (a) A cash credit of four lakhs on the Promissory notes of four lakhs executed by the Provincial Bank in favour of its Guarantee shareholders and endorsed by the latter in favour of the Imperial Bank. The Guarantee shareholders also execute agreement bonds making their

Pronotes a continuing security and agreeing to pay the amount in case of failure of the Provincial Bank to do so. This cash credit is granted at the special rate of $\frac{1}{2}$ per cent. below the bank rate. Guarantee shareholders of the Bank holding shares of one lakh each are (1) Maharajadhiraja Bahadur of Darbhanga, (2) Maharaja Bahadur of Hatwa, (3) Raja Bahadur of Banaili, (4) Raja P. C. Lal of Purnea.

- (b) A cash credit of three lakhs against Pro-notes of central banks given to the Provincial Bank and endorsed by the Provincial Bank in favour of the Imperial Bank of India. The face value of the Pro-notes so endorsed is four lakhs and the credit is granted at bank rate.
- (c) An overdraft account of Rs. 2,85,000 against Government securities of the face value of three lakhs belonging to the Provincial Bank endorsed in favour of the Imperial Bank of India and kept with the latter bank. This overdraft is also granted at bank rate.

For remittance of funds from the Provincial Bank to the central banks and from the central banks to the Provincial Bank demand drafts are granted by the Imperial Bank on Government account at par.

It will be seen that the main service the Imperial Bank now renders to the co-operative movement consists in allowing cash credits to the Provincial Bank. For these cash credits proper securities have been taken. The limit of cash credit is Rs. 2,85,000 of which Rs. 2,85,000 is against Government securities on which any commercial bank would be too willing to advance and only 3 lakhs are against the Promissory notes of rural credit societies while the remaining 4 lakhs are against the Pro-notes of certain landed magnates who have undertaken to act as Guarantors on getting $\frac{1}{2}$ per cent. from the Provincial Bank on the amount guaranteed by them. In effect, therefore, the co-operative movement is not much indebted to the other banks for procuring the necessary finance and it may be said that the movement is, in its financial side, quite self-contained.

There is no relationship between the Co-operative Banks and the indigenous banks or bankers. No co-operative bank carries any kind of transactions with them in the sense of opening accounts or borrowing money from them. But some of the local bankers and money-lenders have started depositing their money in our banks which is a good index of the financial stability which our banks have now acquired. The central banks try to obtain the services of indigenous bankers by enlisting them as shareholders and electing them as directors. They are very useful as Honorary Treasurers of the central banks. There are a good few acting as such and provided they are rightly tackled they have not shown any serious prejudice to co-operate with our banks.

The necessity of greater facilities to the Provincial Bank by the Imperial Bank will be felt as the movement advances. The provision

of sufficient fluid reserve for the co-operative banks is difficult to achieve without the help of the Imperial Bank or such other State banks as may be established. Co-operative finance is very inelastic and open to risks in bad agricultural years if there is no bank to fall back upon to provide the necessary fluid reserve. For instance, if there is a very bad year when it is impossible for the agriculturist-borrowers to pay their instalments to their co-operative banks but if in that year there is a rush from the depositors the whole co-operative finance will come to a standstill if there is no State bank to come to their rescue. At present the Imperial Bank is not under any obligation to help the Provincial Bank. If it chooses to withdraw its cash credit it can do so. As a matter of fact the Imperial Bank has just withdrawn the concession of $\frac{1}{2}$ per cent. in its rates to the Provincial Bank which it has been giving since the last 14 or 15 years. In order to put co-operative finance on sound basis able to withstand times of adversity it is of utmost importance that the State should make it obligatory on the Imperial Bank to grant sufficient cash credit to the Provincial Bank under proper safeguards.

(2) ESTIMATE OF EXTRA CAPITAL REQUIRED FOR FINANCING THE
CO-OPERATIVE MOVEMENT.

It is rather difficult to frame a proper estimate of extra capital required to finance the co-operative movement. But an estimate can be framed on the basis of the experience gained hitherto. There are at present 8,431 agricultural credit societies in about the same number of villages as against 84,816 villages in the province. According to the village basis we have reached only one-tenth of the villages, that is to say, out of ten villages we have got at present a society in one village. According to population the results are still poorer. The present membership of agricultural societies is 204,565 while the entire population of the province is over 3 crores. The average membership per society is 24.2. The ultimate ideal of this movement is to provide each village of ordinary size with a society. According to the Census figures the average number of families per village is about 78 so the total number of families in the province comes to $84,816 \times 78$ equal to 6,615,648. At present we have got in the co-operative fold only about 40,913 families taking an average family to consist of five members. If so many as 40,913 families require a capital of Rs. 2,33,73,376 or in round figures Rs. 2,34,00,000 then the requirements for the whole province would come to 300 crores. But this is certainly an over-estimate as the entire village population will not need money and at present it is only those who need money who have come into the co-operative fold. I think it can be safely put down that about half to two-thirds of the people will not take any loan. If only one-third of the people require loans and help out of co-operative finance the estimate comes to 100 crores. But the ultimate ideal of having a society in each village cannot, in my opinion, be safely reached in less than 30 to 40 years. So this additional finance will be needed not all at once but in the next 30 to 40 years. But out

of this estimate one-fourth may be taken off as it will have to come from the members of the societies themselves as is the case at present. So the net estimate would come to about 75 crores.

Replies to the questionnaire.

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. *Agricultural finance.*—The main sources from which the agriculturists obtain finance are (a) village money-lenders, (b) village landlords, and (c) co-operative societies wherever they exist. In addition to these, there are certain other types of money-lenders whose activities are not confined to any particular village but who cover a larger ground, for example, the Athiths and the Moghuls. These may be called itinerant money-lenders who go about from village to village in search of their business. The Athiths are not so numerous as the Moghuls. Both the Athiths and the Moghuls belong to the class of professional money-lenders and as is well known they not only charge exorbitant rates of interest but resort to methods which have made them more a curse than a blessing to the country. There is also a more organized form of money-lending institution called by the name of *Kist Kothies* which make advances on very rigid terms. There are some big landlords who own such *Kist Kothies*. Agriculturists generally have dealings with the *mahajans* or the village co-operative societies and it is only the improvident and reckless agriculturists who resort to the Athiths, the Moghuls and the *Kist Kothies*.

The rates of interest greatly vary not only from place to place but also according to the purposes of the loan and status of the parties concerned. Before the advent of the co-operative movement the rates used to be very very high. One of the greatest effects of the introduction of the co-operative movement has been that it has brought down the rate of interest. Speaking generally the rates of interest charged by the village *mahajans* and the village landlords vary between 24 to 36 per cent. As regards the rates of interest charged by the usurious class of money-lenders like the Athiths, the Moghuls and the *Kist Kothies*, it can be anything over 50 per cent. But these rates of interest are in case of small loans. For larger loans contracted on security, the rates of interest are much less and vary from 12 to 24 per cent. The co-operative societies charge between 12 and 18½ per cent. per annum. The average will come to between 13 and 14 per cent. The rates charged by the co-operative societies are being lowered. One of the reasons why co-operative societies are not very popular is that the rate of interest is considered to be higher than what it ought to be. There are a good few villages where money can be had by agriculturists on a lesser rate of interest than what is charged by the co-operative societies. Since the last two years efforts are being made to reduce the rate of interest and several central banks have reduced their lending rates by 1 or 2 per cent. Formerly the general

rule was that banks in Bihar lent at $12\frac{1}{2}$ per cent. to the societies and the societies lent to the members at $15/10$ per cent. But now the central banks' rates are reduced to 11 per cent. and even 10 per cent. and there is the corresponding reduction in the rate of interest charged by the societies. The rate of interest on grain loans is 25 to 50 per cent. The co-operative grain *golas*, however, do not charge more than 25 per cent.

The period of loans contracted depends on the purpose of the loans. In case of loans for cultivation purposes they are repayable at harvest time but in case of other loans, for instance, for purchase of cattle, payment of rent, liquidation of debt, no definite period is fixed and in practice it generally runs from two to seven years. The question of security does not arise in case of small and short-term loans. In case of big loans mortgages are taken or other securities.

The props of agricultural finance are the village money-lenders and the co-operative banks and societies. Landlords who in bygone days considered it as part of their duty to make advances to their tenants have been gradually withdrawing themselves from this function for various reasons and if they are carrying on money-lending to some extent it is more out of considerations of profit to themselves than for doing a good turn to their tenants. The part played by the Imperial Bank of India and the Joint Stock Banks in agricultural finance is almost nil. Government however comes forward in abnormal times such as famine, floods and other calamities when it gives *takavi*. Members of co-operative societies generally do not take *takavi* if they can get loans from their societies even though the societies' rate is higher. This is probably due to the fact that *takavi* loans are very small as also to the fact that the villagers have greater dread of transactions with the *Sarkar*.

Merchants and dealers come into contact with the agriculturists in connection with the purchase of agricultural produce and they give out money to the agriculturists in advance to secure goods at more favourable rates. Companies trading in fertilisers do not give credit direct to the agriculturists but some of the central banks have made arrangements with these companies to supply them with fertilisers on short credit for distribution in the societies. Some companies have even undertaken to meet the cost of entertainment of the staff employed by the central banks for the sale of fertilisers.

It is obviously difficult to make an estimate of the total amount of capital required for various purposes by the agriculturists particularly for the whole province but attempts may be made to guess it by the experience gained through the working of the co-operative societies. There are at present 8,431 agricultural societies in about the same number of villages as against 84,816 villages in this province and the capital locked up in them is about two crores and thirty-four lakhs. Experience has shown that societies are fairly in a position to regularly pay the interest on this capital but have not sufficient margin of saving to be able to pay towards the principal and when payments are made

towards the principal they are generally taken back after a time as fresh loans. It follows from this that this amount of two crores and thirty-four lakhs is the permanent capital, so to say, required by these societies. I have worked out the total estimate of the capital required for agriculturists to be 75 crores as explained in my preliminary note on certain points submitted to the Committee in my letter no. 17116, dated the 30th October 1929.

The main defect in the existing system is that there is no proper system at all and the agriculturists are left to manage as best as they can. In their helplessness they run to anyone who can offer them money and take it without properly weighing the consequences of the transaction. The agriculturists, in my opinion, can only be saved by providing State Agricultural Banks or Co-operative Banks and by enacting that that they cannot contract loans from any other agency without the consent of the banks to which they are attached. It is of the greatest importance that the agriculturists should not have more than one door to their credit requirements. Under the existing state of affairs the agriculturists move in a vicious circle. They go on contracting loans from the landlords, the *mahajans*, the co-operative societies and sometimes also from the Moghuls and the Athiths. The result is that they are forced by circumstances not to be true to any of them and thus they bring about their ruin.

There is no co-ordination worth the name among the various credit agencies nor does it seem to me to be quite feasible to provide for such co-ordination. The proper remedy seems to me, as stated above, that the agriculturists should be restricted to one and only one borrower.

2. *Marketing of produce.*—The marketing of agricultural produce in this province is generally in the hands of local traders and agents of big merchants. The local traders in their turn dispose of the produce through commission agents called *arhatdars* while the bigger merchants deal on their own account and export to larger centres. Some of the local traders also act as agents of bigger merchants. The possibilities of forming pools through co-operative sale societies are very great provided a large scheme is launched and carried out. In the past some co-operative sale societies were organized but they failed as they were organized on a smaller compass and not properly supervised. The societies were left mainly in the hands of unscrupulous workers and the department could not exercise adequate supervision. If adequate supervision is provided there is no reason why co-operative sale societies should not be a success. But the department cannot launch on any large scheme without a special staff. Government aid will be necessary not only in providing a special staff but in contributing towards the cost of management in the first few years. With an annual subsidy of Rs. 20,000 for a period of seven years about 28 sale societies can be successfully organized each dealing in about 2 lakhs maunds of agricultural produce. In my opinion it is of very great importance that sale societies should be provided than that credit agencies should be extended. It is a very great mistake to provide facile credit without providing

means for the proper use of the credit. What an agriculturist needs is not so much money as better bullocks, better seeds and better facilities for marketing his produce. He uses the money that he gets in producing crops but if the crops do not yield him sufficient return it is impossible for him to repay the money with whose help he produced the crops. It is well known that a large portion of the price paid by the consumer is consumed by the middlemen and the producer's income is the narrow margin left after a host of middlemen have benefited themselves out of the agriculturists' labour. This state of affairs can only be remedied by providing the agriculturist with an organization by means of which he would be able to sell his produce with the minimum of exploitation by the middlemen. Co-operation opens a vast field in this direction. It is a great pity that in this province co-operation has lagged behind in this useful activity.

There are no facilities for the agriculturists for the marketing of their crops. It is mainly on account of the absence of facilities that they have to part with their crops at very disadvantageous terms. They cannot hold out for better prices on account of their slender resources and they often have to accept the terms laid down by the merchants and dealers than to dictate their own terms. There are commission shops called *arhats* where sales may be effected on commission basis but they are generally accessible through dealers and agents and the ordinary agriculturists have no direct access to them. For big merchants and dealers the Imperial Bank and the Joint Stock Banks provide certain facilities by making advances against the security of the crops. Such advances do not usually exceed 70 per cent. of the market price of the crop which has to be deposited in the godowns of the banks.

Internal remittances.—The existing facilities for internal remittances are (a) facilities provided by Government such as postal money order and insurance, supply bills and telegraphic transfers on Government treasuries, (b) facilities afforded by the banks, and (c) *hundis*.

For the ordinary agriculturists postal money order and insurance form the chief means of remittance. Co-operative societies are at an advantage in the matter of remittances by money order because three-fourths of the cost of the money order commission is borne by Government. Co-operative banks and societies enjoy the privilege of getting remittance transfer receipts on Government treasuries at par. But in regard to supply bills and telegraphic transfers co-operative banks and societies do not enjoy the privilege of free remittance.

As the number of banks in the interior is very few facilities for remittances are very limited. Postal money orders are rather expensive while the system of insurance is very irksome in the villages. Greater facilities are, therefore, required. I think co-operative banks can be utilized to do exchange business but it would be a mistake to overrun the country with commercial banks simply to provide greater remittance facilities. My idea is that for the villagers there should be one bank doing both co-operative banking and ordinary banking. As co-operative societies increase more central banks will come into existence and there

seems no reason why other types of banks should be imposed on the villagers when there is a central bank which can be used to discharge all banking functions.

Hundis play a very important part in the internal trade of the province but I am not personally acquainted with its ramifications to justify me to dilate on them.

The instrument employed for raising money during the process of marketing is the railway receipt. It is said that if these railway receipts are given a negotiable character it will very much facilitate trade, but it would also lead to cheating. Licensed warehouses will, in my opinion, not be popular in agricultural India. Agriculturists will fight shy of them and look upon them with some amount of prejudice. The agriculturists will find it more suitable to operate through sale societies and unions. Government assistance will be needed for the organization of sale societies and unions.

3. *Value of land*.—The value of land in this province ranges from Rs. 50 to Rs. 1,200 per acre. The lowest rate prevails in Chota Nagpur and the highest in Tirlhut. The highest values are for lands yielding money-crops such as sugarcane, chillies, etc. The main factor regulating the value of land is its yielding capacity. It is therefore that the factory lands which have been enriched by fertilisers yield high prices. The average price I do not think exceeds Rs. 300 per acre. These are the values of *raiya* lands in respect of which the custom of transferability prevails. Where the custom of transferability does not prevail prices are much less. In regard to *milkiat* (proprietary) lands the value is determined not so much on the quantity of land as on its rental. For instance, if a property has a rental value of Rs. 100 it fetches anything between 16 and 20 times its rental value. The value of land in Government auction or at sale by court decree depends practically on chance. There are instances in which valuable properties have been purchased for a very low price. But generally speaking landed properties fetch much more by private negotiation than in Government auction or in sale by court decree. In the first place Government auction and sales by court are not well advertised in the sense that they do not come to the notice of those who are fully acquainted with the properties sold. Secondly, the impression prevails that it is only the worst properties that are generally auctioned.

4. *Land Mortgage Banks*.—There is no legal impediment to the mortgage of agricultural holdings in this province. There are no land mortgage banks or agricultural banks for the provision of long-term credit. Co-operative societies have, however, started giving long-term credit up to ten years in certain cases.

The establishment of land mortgage banks is beset with certain difficulties. The first and foremost is that the right of transferability of agricultural holdings is not conferred by law and it is only governed by custom. Even if this right is granted by the legislature the working of land mortgage banks for agriculturists will, in my opinion, be beyond their capacity and such banks will have to be run almost entirely by the

State. The most insuperable difficulty will be the management of holdings acquired by foreclosure and sale. Co-operative societies take mortgages as collateral security in case of large loans, but it has been found that lands put to sale do not fetch a proper price and sometimes do not attract even bidders and when the co-operative bank is compelled to purchase the lands in liquidation of its dues it finds it a very hard task to lease out the lands. The defaulters evoke a certain amount of sympathy among their co-villagers who consider it a part of their duty not to help the bank in realising its dues. Several such cases have cropped up in the districts of Patna, Shahabad and Gaya where the banks have become tied with landed properties which they find difficult either to dispose of or lease out. I also doubt very much if it is desirable in the interests of the agriculturists to provide very long-term credit. In my opinion an agriculturist should not be given credit beyond ten years. If he cannot extricate himself from debt in ten years, he should be considered as not deserving of help. The ordinary requirements of an agriculturist will be served by the bank providing for long-term credit for ten years. For this limited long-term credit, co-operative societies would be a better agency than land mortgage banks. Their greatest advantage lies in the fact that in addition to mortgages, there is the unlimited liability of members to fall back upon which will act as a very great check against members helping defaulters to rob the society. It is this unlimited liability which provides the greatest stability to the co-operative societies. Even if a mortgage is defective or insufficient or cannot be enforced for any other reasons there is this unlimited liability under which other members are bound to contribute to the loss. Pure and simple land mortgage banks will be bereft of this additional safeguard and in case they have to take charge of the mortgaged lands and find it difficult to dispose them the management of the lands will devolve on them.

The establishment of land mortgage banks for the agriculturists will tend to cripple the co-operative movement. Co-operation is meant for agriculturists and persons of limited means and experience has shown that if it is conducted on right lines it can fully shoulder this duty. The only difficulty in the way of co-operative societies providing the necessary long-term capital to their members is the want of long-term capital under the existing system of co-operative finance but this desideratum can be provided for. As I have already stated, it is undesirable to provide more than one credit agency to ordinary agriculturists. Supposing a cultivator owning 30 acres of land is a member of a co-operative society and also of a land mortgage bank. He can obtain from the land mortgage bank, loans to the extent of 50 per cent. of the value of his lands. Co-operative societies, as a rule, advance up to 30 per cent. of the assets of a member, but if the member has already taken loans up to 50 per cent. of his assets he will stand very little chance of getting a loan from his society for his other requirements. Once an agriculturist has mortgaged his lands to one creditor no creditor considers it safe to advance money. The result of the establishment of land mortgage banks will, therefore, be that the agriculturist's

sources of short-term credit will be very much thinned. The aim should be not to multiply credit agencies unnecessarily. I am, therefore, opposed to the establishment of land mortgage banks for agriculturists. But I advocate their establishment in the interest of landholders for whom it will be a distinct advantage to operate with well-organized land mortgage banks. If a land mortgage bank has to take charge of a zamindari it will be easier for it to manage than to manage agricultural holdings.

In order to enable co-operative societies to do mortgage banking on an adequate scale it will be necessary to make certain changes in the existing system by making complete demarcation between short-term and long-term loans. Necessary changes are being introduced. It has been decided that banks should grant societies cash credits for their short-term requirements and that long-term loans should be granted only on their furnishing proper mortgages and further that the records of the two kinds of loans should be kept separate. But as stated above the proper provision of long-term credit cannot be made until co-operative finance is able to raise long-term capital. This is not possible without the issue of debentures and issue of debentures is not likely to succeed without Government guarantee.

The question of simplification of foreclosure and sale by the mortgage banks in the event of non-payment is very important as, if the mortgage bank has to resort to the Civil Court for the enforcement of its remedy, it is likely to be involved in interminable litigation. Under the Co-operative Societies Act the Registrar has got power to grant an award which is enforceable as a decree and this power is utilized by him in granting awards to societies against their defaulters. The award is enforceable as a decree in the Civil Court. I donbt, however, if this power is sufficient to enable the Registrar to grant mortgage decrees in favour of mortgage banks. Should it be considered insufficient an express provision is necessary to this effect. As regards measures in the improvement of records-of-right and title of ownership and reduction of cost of reference and registration of records and of the process of law, if land mortgage banks are only to cover proprietary rights no improvement in the title of ownership or reduction of cost of reference seems called for. But if land mortgage banks are to be established also for agriculturists it will be necessary to provide for a regular revision of the records-of-rights and to grant free reference to the records-of-right.

There should be an apex mortgage bank to finance the mortgage banks in the interior. The raising of funds for the mortgage banks should be left entirely to the apex bank. This will be simpler and take away from the subsidiary mortgage banks the difficult task of raising the finance. The apex mortgage bank can raise the necessary working capital by (a) deposits, and (b) debenture bonds.

I think it is absolutely necessary for the successful issue of debenture bonds that Government should come forward to guarantee the interest. At any rate this concession will be necessary for such time as the mortgage banks are not well established. Terms will have to

be imposed to safeguard Government against losses and these terms may be :—

- (a) that the bank should not raise money by debentures beyond a certain limit ;
- (b) that the bank will maintain a sinking fund to provide for the reduction of debentures to which all profits will be credited ;
- (c) that the sinking fund shall be invested in securities approved by the local Government ;
- (d) that the local Government shall have power to take possession of the business of the bank in the event of default being made by the bank in the payment of any interest on debentures.

The terms on which the mortgage bank should raise money should be 5 per cent. on debentures and $5\frac{1}{2}$ per cent. on deposits. These are the terms on which it will be possible to raise money in this province. Probably it may be necessary to give $\frac{1}{2}$ per cent. more. The mortgage bank should issue at 7 or $7\frac{1}{2}$ per cent. to the subsidiary mortgage banks which will issue to their clients at $\frac{1}{2}$ to 1 per cent. more. The margin of 2 per cent. for the apex mortgage bank ought to be sufficient to meet (a) a dividend of 6 per cent. on the share capital, (b) management charges, and (c) the provision of a sinking fund. The working capital of a decent apex mortgage bank would not be less than one crore after the first few years and on one crore it will make a profit of one lakh. Supposing the paid up capital is one-third of the working capital, Rs. 33,000 will go towards the payment of dividend (at the rate of 1 per cent. in addition to the 5 per cent. already provided for) and there will remain Rs. 67,000 which will be quite sufficient for management charges and sinking fund. If the establishment charges and other expenses cover as much as Rs. 17,000, there will still be Rs. 50,000 annually for the sinking fund.

5. *Indebtedness.*—No estimate of total indebtedness has been made nor is it possible to get a fairly accurate idea of it without setting up a regular enquiry. There are statements in the co-operative societies and banks of the indebtedness of their clients and as desired by the Banking Enquiry Committee figures are being obtained from the different societies and banks and these will be furnished as soon as they are received. I would therefore reserve my remarks for the present. Although the registers maintained by the co-operative societies cannot be said to be strictly accurate as regards the outside debt of the members, yet the figures are fairly accurate. At any rate it would not be difficult to get accurate figures of indebtedness of the members of co-operative societies. The co-operative staff if told off to collect very accurate statistics relating to indebtedness will be able to do so within three months. Another alternative would be to direct special enquiries to be made in typical villages in different areas. Not only will this be expensive but I doubt very much if villagers will reveal their secrets to outsiders.

I do not think efficient farmers are being converted into tenants for a period or tenants-at-will through the enforcement of the old debts. It is only the inefficient who are being turned out. There has been appreciable increase in the economic condition of the agriculturists within the last 15 to 20 years.

6. *Subsidiary industries*.—There are various small industries allied to agriculture such as rice-hulling, *gur*-making, rope-making, dairy farming and spinning. Eri-culture has recently been introduced by co-operative societies and is gaining ground day by day. The small industries capable of general adaptation seem to me to be rice-hulling, dairy farming, *gur*-making and eri-culture. Rice-hulling is the most common industry and there is great scope for improvement in this industry by a more general use of small rice-hulling machines which will give greater outturn. If moderately priced rice-hulling machines are made available to the villagers, they will gladly take to them. Dairy farming is an equally important subsidiary industry, but what is needed is to induce the villagers to adopt better methods which will yield better returns. In case of all these industries what an agriculturist needs is not so much capital as expert advice. The best agency for the provision of capital seems to be the co-operative society while as regards expert advice it is for the departments concerned to devise means how to give it. One of the means to train the villagers in better methods would be to take villagers in batches to model centres of dairy farming, *gur*-making, eri-culture, so forth and to keep them there for sometime until they have imbibed the necessary lesson. The proper course for the improvement and encouragement of these industries would be to organize sale societies and unions which will market the produce. For instance, well-organized milk societies and *ghee* societies will not only encourage the industries but bring larger profits. *Ghee* is an important article of Indian food but it is a general complaint that it cannot be easily obtained in an unadulterated form. If there be societies which will sell good *ghee* by obtaining them from the villagers they will command ready sale at reasonable prices. The milk union and milk societies in Bengal have demonstrated the potentialities of organized effort in this direction. But it is only a large scheme linking 50 to 60 villages which will yield successful results. A society here and a society there will be of no use. The most suitable method of organizing these industries seems to me to create unions at suitable centres which will raise the necessary working capital as well as market the produce. Supposing a milk union is organized somewhere near Mokameh and a *ghee* union near Dinapore these will pool all the milk and *ghee* of the locality and offer to the public for sale under a guarantee that the article is absolutely pure and unadulterated. The working capital can be raised by means of shares and by loans. Government might be expected to grant subsidy in the first few cases to encourage the establishment of these unions.

7. *Relations between the Co-operative Banks and the other Banks*.—I have already given an account of the relations between the

co-operative banks and other banks in the country in my preliminary note submitted with my letter no. 17116, dated the 30th October 1929, and I do not think it necessary to repeat the same here. There is at present very little competition between the co-operative banks and the joint stock banks as the co-operative banks have reduced their rates of interest on deposits. Formerly it was necessary for the co-operative banks to give higher rates of interest to draw in money but now that the banks are well established they can very nearly afford to compete for money in the open market on almost equal terms.

The question of the desirability of granting financial concessions to stimulate the growth of the co-operative movement can be viewed from different standpoints. Co-operators not only in this province but also throughout India are keen on securing as many concessions as possible. But my opinion after careful consideration is that there is danger in spoon-feeding after a certain stage and that the co-operative movement has now passed its early days and is above the necessity of spoon-feeding. Of course there are certain concessions which the movement can legitimately claim in all stages. For instance State aid to provide for adequate supervision and control and to provide for the necessary propaganda and training. I am not in favour of the grant of the extension of special exemption from income-tax to co-operative societies. But as regards inclusion of debentures issued by the Provincial Co-operative Bank in the list of trustee securities it is quite a legitimate demand which should be conceded not as a concession but as a matter of right. Although I am against the grant of special concessions, I cannot but submit that State aid to the movement in this province falls short of its legitimate requirements. One of the reasons why co-operative movement has not yet been made sufficiently co-operative is that the department in charge of it has been throughout understaffed. There has been an Assistant Registrar at the rate of one per 1,000 to 1,500 societies. There has been no staff provided for the training of societies in the principles of co-operation. There was no school or class for the training of the workers in the movement. All these serious deficiencies have had their effect and unless proper State aid is forthcoming co-operation is not likely to fulfil the high purpose with which it is charged. It is satisfactory that Government proposes to appoint a committee on co-operation to examine the whole question.

II. INDIGENOUS BANKING.

1 and 2. *Functions*.—To my knowledge there are no indigenous banks in this province but there are quite a number of indigenous bankers mostly at district headquarters. These bankers are principally money-lenders but they transact a certain amount of other banking business such as exchange and remittance and grant cash credits to recognized persons. Taking of deposits is not their normal function and it is only in exceptional cases that deposits are received by them.

Some of these bankers give accommodation to the zamindars in the matter of making advances for the payment of land revenue. There are zamindars who pay their land revenue through their bankers. In addition to money-lending and accommodating the zamindars by the grant of cash credit these bankers finance trade and commerce. They play a considerable part in financing trade but very little in financing agriculture except in the sense that they sometimes finance the village *mahajans*. In towns they have a large share in the financing of small and big industries but this function is being usurped to some extent by Peoples' Banks established under the Co-operative Societies Act. They conduct a large amount of *hundi* business and practically this business is entirely in their hands.

3. *Organization and Capital*.—There are bankers of various grades and some of them employ large capital but, generally speaking, their capital does not run beyond thousands. As a rule the expense of management of those bankers is very small as they generally work themselves helped by their own family members and a small clerical staff. Their system of account keeping is also simple enough to dispense with the necessity of entertaining a large staff. There are good inter-relations between the big bankers but as regards small bankers it cannot be said that there is any particular connection between them. The bigger bankers maintain relations with the Imperial Bank or the joint stock banks and sometimes also with the co-operative banks. Their connection with the co-operative banks is simply that of depositors at times when they are flush with cash and have no other means to make use of it.

5. *Methods*.—The general view is that the bankers' methods of transacting business are not uniform and that they have no scruples in employing questionable methods if they find that the client is a suitable victim. I remember a case in Beguserai subdivision where an attempt was made to change a loan from Rs. 5,000 to Rs. 25,000. The indigenous bankers generally work with their own funds but in times of need they secure accommodation from their fellow-bankers or the joint stock banks. The rate of interest allowed on deposits does not exceed 6 per cent. while on cash credits they do not charge less than 12 per cent. The rate of interest on cash credit is a bit lower in case of approved clients of long-standing connection.

7 and 8. *Prejudice against indigenous bankers*.—Generally speaking the indigenous bankers are not popular and there is a prejudice against them as a class. Those who need money resort to them only as a last resource. One of the reasons why they are so unpopular is that in addition to charging very good interest they also resort to taking *salami* at the time of the grant of loan. They also generally charge compound interest. In one case that I know of compound interest was charged although the levy of the same had not been stipulated in the promissory note. As a class the bankers are sufficiently able to take care of themselves and do not, in my opinion, need any special

protection. I think there is a great necessity of measures to regulate their operations by the enactment of an Act like the Punjab Accounts Regulating Act. This would be resented, I believe, by the indigenous banking community but there is no reason why those who operate as bankers should keep their accounts in secrecy.

9. Allowing for incidental charges and also for legal expenses and losses the net return to the indigenous bankers is not less than 12 per cent. It is the fear of the losses which makes them charge high rates of interest. But the losses, unless the banker is not a good business man, ought not to be so large as to justify his imposing very severe terms.

10. There are cases in which accommodation is refused on account of the unacceptable nature of the security or owing to insufficiency of working capital. But generally speaking if the security offered is good and the terms are also good the banker arranges for funds instead of sending back the client.

11. I would suggest the establishment of a branch of Central Reserve Bank in each district to connect the indigenous banking system. This will greatly improve the tone of the indigenous banking system. In order to inspire the confidence of the indigenous bankers there should be certain representatives from them as an advisory board on the branch of the Central Reserve Bank.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

Facilities such as Postal Savings Banks, Postal Cash Certificates and Savings Deposits Accounts in co-operative societies, central co-operative banks and the Provincial Co-operative Bank provide sufficient means for the encouragement of savings, but I do not think the agriculturists make any extended use of them. The agriculturists still cling to the old habit of investing their savings in landed property and in silver and gold. There is, however, a great change in the urban classes in this direction and they are gradually taking to laying by their money in banks and co-operative institutions in preference to investing in landed property and in silver and gold. The co-operative institutions give a higher rate of interest on savings deposits than is obtainable in Postal Savings Account. Their rates are 4 per cent. to non-members and 6½ per cent. to members. But in order to inculcate among the agriculturists a general habit of regularly investing their savings, special institutions such as the organization of thrift societies seem to be necessary. Thrift societies have made great headway in the Punjab and very recently a Propaganda Officer from the Bihar and Orissa Co-operative Federation was deputed to the Punjab to study the working of the thrift societies there and it is now proposed to introduce them on a large scale here. Without some means of effecting compulsory deposits on the part of the members, mere provision of savings institutions will not be sufficient to inculcate a general habit of savings amongst the agriculturists. It seems therefore necessary to introduce the system of compulsory deposits and for this the best method appears to be to provide thrift societies in the interior.

2. Postal Cash Certificates are popular with the urban classes but not with the villagers. The reason why these certificates are not popular in the villages is that they are liable to be mislaid and lost by ordinary villagers. I do not think the villagers will generally take to Postal Cash Certificates or to any other system of keeping by their savings unless there is a certain amount of compulsion in it.

The present interest rates of cash certificates seem to me quite attractive and suitable and I do not consider any change is called for.

3. Savings banks afford sufficient facilities to the public but the rules regarding the maximum amount which can be deposited in a year might be made more liberal.

4. The cheque-habit has been growing in the province and the abolition of stamp duty on cheques has had the effect of popularising the use of cheques. But the cheque-habit is confined to the urban classes and cheques are almost entirely unknown in villages. In order to introduce the cheque-habit in the villages, the use of cheques in societies and central banks would be a step in the right direction. But in order to facilitate the operation of the cheque system in co-operative institutions it will be necessary to remove the present embargo by which co-operative banks and societies cannot open current accounts. If this embargo is taken away co-operative institutions will be able to popularise the use of cheques in the villages. If cheques have to be used in the villages it would be necessary to permit them to be drawn in the vernacular.

Replies to the Additional Questions.

1. The native-born inhabitants of this province are certainly backward in banking activities as compared with Indians from some other parts of India. The reasons seem to be :—

- (i) want of banking facilities ;
- (ii) want of industrial centres.

2. There are here certain branches of joint stock banks with their head offices outside the province but they are only about two or three and I do not think that on the whole a large proportion of the savings of this province is being exported through them to other provinces. I do not think it would be feasible to insist on any condition that the money collected in one province should not be allowed to go out of the province.

3. (a) I think it would be of advantage if larger rural post offices be allowed to do current account business in addition to the Savings Bank accounts. This would provide a good means of introducing the cheque-habit in the villages. But if co-operative banks are allowed to accept current accounts the necessity of rural post offices undertaking the same business will disappear.

(b) I am not in a position to say how far the post offices will be able to do the business of discounting of credit paper. But if this

can be properly arranged I think there is no reason why post offices should not be utilized for this work.

4. I do not consider there is any scope for pawnshops lending on valuables. Not only the *mahajans* do this kind of work in a fairly satisfactory way but the Peoples' Co-operative Banks have also started this business.

5. *Mahajans* and in particular the village *mahajans* do mix up in a single account trading transactions with banking transactions. I do not think that the evils arising therefrom are so great as to necessitate legislation insisting on separate accounts.

6. I do not think that indigenous bankers would combine for the purpose of pooling information about their clients but if any agency could be organized which will collect the necessary information and give it out to the indigenous bankers the latter will be glad to make use of that agency.

7. If co-operative banks are to be extended it would be highly undesirable to set up another agency like licensed or registered money-lenders. I doubt very much if they would be better substitutes for co-operative societies.

8. There is a great tendency amongst the agriculturists to invest their savings in lands and there is great competition for lands in consequence. The price of land is no doubt going up so much so that the return from land sometimes does not yield more than is obtainable from banks on deposits.

9. Small urban industries, small retail traders and small contractors obtain their finance from the local money-lenders. The establishment of small Peoples' Banks for them will be to their advantage.

10. I do not think much use has been made of the Usurious Loans Act (X of 1918) in this province.

Oral Evidence.

Chairman : Rai Bahadur, you have been the Registrar of Co-operative Societies for about five years now.

Witness : For about three years and four months. I took charge in July 1926.

And prior to that you had some other experience in the department?—Yes, I had officiated as Registrar for about eight months in 1924.

You were also closely connected with the Co-operative movement prior to that as a Subdivisional Officer?—Yes.

You have submitted two memoranda to us, one dealing with the relations between the co-operative banks and other banks and the other one dealing with the general problems of banking. We will first take you through your memoranda dealing with the relations between the

co-operative banks and other banks. In the second paragraph of that memorandum you have said that it is an advantage to have what may be called "till money" in the local bank, but at the same time you say they cannot afford to keep a great deal of "till money" because the Imperial Bank will not pay any interest on it?—Yes, whereas the Provincial Bank pays at the rate of 4 per cent.

Has it ever been considered whether cash credit accounts cannot be opened by a central bank with the Imperial Bank or with a joint stock bank in the locality?—There are certain banks who have got cash credits with the joint stock banks, e.g., the Bank of Behar in Chapra.

I suppose this practice has been considered and approved?—They have adopted this practice and the department has not objected to it.

The reason I ask you this is that the Cuttack Central Bank preferred to have cash credit facilities which the provincial banks could give them. I understood the department objected to that. I suppose you have no recollection about it?—I have no recollection. Under the Co-operative Societies' Act, all the central banks, if they want to have any transactions with the joint stock banks, ought to take the permission of the Registrar before doing so. So, probably they did not apply for the usual sanction before starting this business with the joint stock banks.

Why is it that the Provincial Bank gives as much as 4 per cent. interest on current accounts? Does it do so to all customers or only to central banks?—Only to central banks, and to others the rate of interest allowed is only 2 per cent.

Is not 4 per cent. high compared with the rates of the joint stock banks?—Yes it is so.

Mr. Hodge : Does the Provincial Bank need the money?—The Provincial Bank has got to take all the surplus of the central banks.

Professor Batheja : If the Provincial Bank allows 4 per cent. on current accounts does it not feel difficulty in lowering the rate of interest on its loans?—The Provincial Bank charges 7 per cent. interest on what it lends out to the central banks out of cash credit.

Has not this rate been reduced recently?—No, not on cash credits.

Chairman : What is your relation with the Provincial Bank? Are you the Chairman of it?—I am only an ex-officio Director. I cannot press my views very strongly. They have got their own Chairman and a Managing Director.

Professor Batheja : What is your influence with the Imperial Bank of India in securing facilities for the co-operative banks?—None at all.

Then how were the special facilities given to the co-operative banks?—These facilities were given in the year 1914 after correspondence between the Registrar of Co-operative Societies and the Imperial Bank.

Chairman : It seems probable that the Government of India may have brought pressure to bear on the Imperial Bank. Is it so?—It was in the time of Mr. Collins that the Provincial Bank was formed and he discussed the matter with the Managing Directors of the Imperial Bank.

Professor Batheja : Now that some of the facilities have been withdrawn, can you not take some action in the matter?—I can write to the Imperial Bank through the Government.

Do you think it worth while that the Provincial Bank should retain these concessions?—I don't think so.

Chairman : And the reason is that the Provincial Bank can stand on its own ground now?—Yes.

You have said that it is the duty of the Imperial Bank to come to the rescue of the Provincial Bank and through the Provincial Bank to the central banks should any crisis arise. Since the Provincial Bank was started, I think there has only been one very bad year, 1918, so that there has really not been any very great stress.—We in Bihar and Orissa did not feel the stress to such an extent as the other provinces, because the movement was not so widely spread here.

You say that it should be made obligatory on the Imperial Bank to come to the rescue of the Provincial Bank under certain safeguards. What safeguards had you at the back of your mind when you made that suggestion?—At the present time the Imperial Bank grants cash credits to the extent of only 7 lakhs of rupees, whereas we hold Government securities to the extent of over 20 lakhs, and therefore I don't see any reason why the Imperial Bank should not give us more cash credit, if necessary.

Is there any reason why the Imperial Bank should treat the Provincial Bank differently from their other customers? If you pledge your own Government securities with the Imperial Bank, won't they give you credit on that?—They ought to but they might refuse.

Then you hold that the Imperial Bank should accept the pro-notes of the central banks?—Yes, they should. At present they accept only to the extent of 3 lakhs.

Mr. Hodge : Perhaps you don't recall the reasons which led to the fixing of the 3 lakhs limit?—In the earlier stages of the co-operative movement there might have been some reasons.

Professor Batheja : Was there not some provision made in the Reserve Bank Bill which was introduced in the Assembly for providing more money for the co-operative movement?—I am not well aware of the provisions of that Bill.

Mr. Hodge : I take it that the Provincial Co-operative Bank is a good client of the Imperial Bank?—We do not make any very large deposits in the Imperial Bank, but we pay the market rates of interest for cash credits which we draw from them, which is at present 7 per cent.

Chairman : In fact you are a steady borrower?—Yes, to the extent of 5 or 6 lakhs of rupees.

Professor Batheja : If you borrow at such rates from the Imperial Bank, then you will have to charge enhanced rates when you lend to the central banks?—Not necessarily. Our rate with the central banks is fixed and we cannot enhance the same.

Who fixed the rate?—The Provincial Bank fixes the rate. The rate of course varies from time to time, but not after each fluctuation of the market.

The rate is changed I presume when there is a long-term fluctuation and not when there is a short-term fluctuation?—That is so.

Chairman : It is not always that the Provincial Bank draws up to the maximum permissible from the Imperial Bank?—The maximum is rarely reached. We have enough funds of our own and therefore we draw only up to about 4 lakhs.

Professor Batheja : You have discussed the relationship of co-operative banks with indigenous bankers and you state that money-lenders have started depositing money with the central co-operative banks. Do they deposit this money because they have no other opening or out of any philanthropic motives?—It is certainly not out of philanthropic motives at all. It is partly due to the confidence that they have in the central banks.

Are these deposits very large?—It is fairly large.

Does that indicate that there is no conflict of interest between the co-operative societies and the village *mahajans*?—I don't understand that question. Deposits of money-lenders in central banks amount to about 4 lakhs altogether.

Do you agree that there is some co-operation between the *mahajans* and the co-operative central banks? I refer to all kinds of money-lenders in the villages.—Not a bit of it. I don't think there is any co-operation at all, because the *mahajans* as a rule are generally very hostile to the co-operative movement.

Chairman : Then the people you are referring to here as indigenous bankers are really the big people in the towns?—Yes, I talk of people in the towns such as Marwaris, etc., who lend money.

None of them are possibly worth less than one lakh each?—Yes I refer to people who are worth one lakh.

Professor Batheja : Such indigenous bankers are not hostile to the co-operative movement?—I cannot say, but they do assist us whenever we approach them. I cannot, of course, tell you anything about their internal feeling.

As regards the smaller *mahajans* are they not hostile to the co-operative movement and *vice-versa*?—To some extent, it is so.

What is the reason for your insisting on all members of co-operative societies that they should borrow only from the societies?—In the interests of the borrower himself so that he may not borrow from different sources and thus ruin himself.

Or is it in the interests of the lender also?—Not so much in the interests of the lender.

Is it not because of the fear that if a man borrows from two or more different sources then the same property is liable to be attached?—The main reason is to avoid his ruining himself and the society thereby.

Mr. Hodge : In view of the probable spread of the co-operative movement and the necessity for securing more capital, do you not think it desirable that more substantial *mahajans* should invest their monies in the central banks?—I think so, yes. Even the village money-lenders should be asked to deposit their money in the central banks.

Chairman : Can a village *mahajan*, who is not a member of a co-operative primary society, deposit his money in a primary society?—Yes, to a limited extent, up to Rs. 200.

Professor Batheja : What rate of interest will be given to a *mahajan* when he makes a deposit for one year?—He is paid 9½ per cent.

Chairman : Regarding your estimate of the extra capital required, am I right in saying that your estimate here is calculated on the average annual borrowings of a family which is at present a member of the co-operative society? I stress the word *annual*.—I have estimated it on the total borrowings, or the total outstanding indebtedness to the society.

Then taking that figure you multiply it up by the number of families in the province as compared with the number of families affiliated to the co-operative movement?—Yes.

Then you take away two-thirds?—Yes.

Have you any reason for doing so?—In my opinion that will be the average number of persons not requiring loans.

Do you mean to say that two-thirds of the people in the villages won't go to co-operative societies for loans?—Yes.

Mr. Hodge : They borrow because they must borrow and many borrow because they can borrow?—That is so.

Chairman : We are aiming at the total indebtedness of the village or province. Is it your idea that that too ought to be the same?—I do not think it will be the same. There might be some difference.

What form of difference will that be?—A certain amount would be required for their current expenses in addition.

Your estimate is the amount of credit that they ought to be in possession of in order to satisfy the village needs sufficiently, some on long term and some on short term. Taking this, your estimated amount of 75 crores of rupees, you want to put this amount into the hands of the agriculturists in order to improve agriculture?—Yes.

Is it not roughly speaking the same as the total indebtedness of the agricultural population? A large sum of money will be shifted by the village *mahajans* into indebtedness to co-operative societies. Is that your idea?—Yes. I would roughly put the estimate of indebtedness at 60 crores.

You speak of Athiths and Moghuls. Are the former not called Nagas in certain places?—Yes.

You consider that the Moghuls, the Nagas and the Athiths are of very great importance in money-lending business?—Yes especially in some areas such as Tirhut, where they are very active.

Do they lend out a great deal of money?—I can't say that, but they are in evidence everywhere. Even the other day when I presided over a co-operative meeting at Bankipore, I found three of them there and laughing at us in our attempts at reducing the rate of interest.

Mr. Hodge : Are they not traders in general?—They deal in cloth and they lend it sometimes on credit.

Would you say that the part they play in the financing of agriculture is as big as that of the co-operative societies?—No, not at all.

Professor Batheja : They generally advance very small loans?—Yes.

Where do they get the money from?—So far as I know it is their own money.

We have heard it said that there are certain big financiers in Calcutta who finance them?—I have never heard it.

Have you heard that the Directors of the co-operative central banks also finance them?—No, not to my knowledge.

Mr. Hodge : You think their business is decreasing?—Yes, to some extent.

Professor Batheja : Can you give us an idea of their methods of business?—They advance loans and they realise the same sometimes by means of terrorism.

Do not the Police come in the way?—The police do not generally interfere.

Can you not stop this terrorism as a Magistrate and as Registrar of Co-operative Societies?—I don't think it is possible unless we turn them out completely.

Do these Kabuli merchants advance cloth on credit to all people?—No, not to all.

Would you suggest the passing of any special law to deal with the illegal methods of these money-lenders, or do you think the ordinary law would suffice?—I think the Usurious Loans Act would suffice if properly applied.

Chairman : Have you ever had a case before you where criminal force had been used by the Kabulis against anybody for the realisation of their dues?—No such case has come to my notice but I have heard it said that they resort to violence.

If a conviction on such a complaint takes place then you would make a provision for expelling such a person from the place altogether?—Yes, I think that would be a feasible policy to adopt.

Why are the villagers afraid of proceeding against these people?—Because they are afraid of bodily or other injury at their hands.

Can you give an instance of a *kist kothi* in the province?—I am not thinking of indigo factories, but there are some big landlords who have got *kist kothies*. I don't like to name them but I can give you the places where they are located, for instance Begusarai.

Mr. Hodge : What does a *kist kothi* mean?—It means an office where loans are given and collected on regular *kists*.

Professor Batheja : How are the operations of *kist kothies* different from the operations of the zamindars who are also money-lenders?—For instance, if it is a loan for Rs. 25 only Rs. 21 is given out and Rs. 37-8-0 is collected after about six months. If the *kists* are not paid on the due date then a further penalty is charged.

Is there a difference only in method?—Yes.

Is any force used in the realisation of the dues?—I cannot say that, but I understand peons are sent out with a mandate that they must collect the dues somehow or other.

You have classed the Kabulis and the Athiths together. Do both resort to improper methods of realisation of their dues?—I think so.

The rate at which co-operative societies lend in this province are higher than any other province?—It is higher than Madras but not higher than Bengal.

Why is it higher?—Because in Madras they get deposits on lower rates of interest.

I take it that the rates of interest you pay on deposits could be lowered here as well?—I don't think so. We won't be able to attract money if we further lower the rate of interest.

What do you pay at present for deposits?—It is about 6 to 7 per cent. and the societies lend to the members at rates varying from 13 to 15/10 per cent.

Chairman : So there is a clear gap of from 6 to 7 per cent.?—Yes.

Is it not a fact that in Chota Nagpur members can only borrow at 18½ per cent.?—Yes it is so in certain backward parts of the province.

There also you pay only 6 to 7 per cent. on deposits received?—Yes, it is so.

Then why should there be any difference?—Because the working capital in those areas is not high and members generally don't take up large loans, with the result that the societies find it difficult to make sufficient profit to enable them to keep their bank going.

So the higher the working capital the smaller will be the gap?—Yes, that is so.

You say that the Co-operative grain *golas* don't charge more than 25 per cent. interest. Why should such a high rate be charged?—Because these grain loans are generally repaid in one year's time.

And supposing they are repaid in six months' time are they given any rebate in the rate of interest?—No, they are charged this rate irrespective of the period within which they repay within a period of one year.

Is it your experience that loans taken for cultivation purposes are differently treated in the documents and made repayable at harvest time?—Yes. As a matter of fact no definite documents are executed. The money-lender records the transaction in his books, that is all.

So, it is only an understanding rather than a contract?—Yes, that is so.

Have you got any evidence to show that money-lending landlords are decreasing?—I have no definite evidence, but that is my experience and what my observations have led me to infer.

Which part of the province are you thinking of?—South Bihar generally.

Do you think it a desirable practice for landlords to lend to their tenants provided the rate of interest is reasonable?—Landlords ought to lend to their tenants at reasonable rates of interest.

What is the period you refer to as “by-gone days”?—About 20 years.

Professor Batheja : On the other hand we heard it said in the Tirhut division that if money-lending and the zamindari work were placed in the hands of the landlords, it will be giving too oppressive powers in their hands?—I think much depends on the personality of the zamindar.

Chairman : When you speak of landholders lending to their tenants, you don't think of the *kist kothies*, do you?—No, I don't think of that at present.

Professor Batheja : On the whole you think the village money-lender occupies a most important part?—Yes.

Chairman : How many central banks are now supplying fertilisers through the societies?—There are only about eight or ten central banks at present. This was introduced only last year and the number is increasing. Formerly there were only two or three and now about six to eight of them are doing this business.

Is it correct to say that fertiliser companies are supplying fertilisers to the central bank at three months' credit without interest?—Yes.

Mr. Hodge : Are there more than one companies doing this business?—I think there are two.

Chairman : Is there any difficulty about collecting advances?—None at all.

Do these companies meet the expenses of distribution of the products?—No, except meeting the cost of maintaining a clerk at the bank for the purpose.

Professor Butheja : Do you think this is enough for the service rendered in return?—Yes, I think so.

Chairman : What form of provision in the Co-operative Act would you suggest to prevent agriculturists contracting loans with other

agencies than the co-operative society of which they are members?—Invalidation of the loan made after he has become a member of the society.

Professor Batheja : Do you think that co-operative societies have enough money to finance all the needs of their members? They can raise more money if necessary.

You have estimated 75 crores as the amount required to meet the agriculturists' demand. Can the co-operative societies raise that amount?—They can easily do so.

In this province?—Yes, I think so.

Chairman : Would you make the provision in the co-operative Act that the loan taken from the *mahajan* would be invalid at once, or only after consideration of the circumstances?—It would be better to make it subject to consideration by the court.

Can the society expel any of its members at present?—Yes, they can do so.

Has the society ever expelled its members for taking loans from the *mahajans*?—Some cases have occurred, but very rarely.

Professor Batheja : Would this provision make the co-operative societies more popular?—It will make them more efficient.

Would you suggest such a similar provision to the *mahajans* also?—Certainly not.

You will give this privilege only to the co-operative societies?—Yes, because their proceedings are public and there is proper supervision and auditing.

But suppose we had a set of *mahajans* who conduct their business exactly on the same lines as co-operative societies, then have you any objection to create such a provision in their case also?—No.

Chairman : Has not the competition which the co-operative societies brought in been instrumental in bringing down the rate of interest?—Yes.

Is it not a fact that the co-operative movement is controlled by the central banks?—Yes, mainly by the central banks but there is a great tendency on the part of the co-operative societies to reduce the rate of interest and they exercise that pressure.

Mr. Hodge : You have said that villagers take very little of *takavi* loans and they have greater dread of transactions with the *Sarkar*, and so they resort to co-operative societies for their loans. Do Government realise their loans with greater strictness than co-operative loans?—I can't say that.

Chairman : Have you had recent experience of giving *takavi* loans on a large scale?—My last experience was in the year 1916 in Bihar.

Professor Batheja : Are there any abuses by Government servants in the grant of *takavi* loans?—I have heard it said that the clerks and peons who deal in this work charge about 1 anna or so in the rupee.

Chairman : Is it not a fact that in Orissa *takavi* loans have been distributed very widely?—Yes, in connection with the floods.

Mr. Hodge : Is the dread of the *Sarkar* due to the fear that the loan will have to be repaid on a stipulated day?—Possibly so.

Professor Batheja : Have you heard about these abuses in the grant of *takavi* loans in all parts of the province?—I have heard about it in some parts of the province, but now-a-days the officers are very careful in looking to the proper distribution of the *takavi* loans.

Chairman : You are in favour of starting co-operative sale societies?—Yes, provided they are organized on a large scale.

What is the “ scale ” you contemplate?—That is to say, some 40 or 50 societies ought to be linked together into a union covering about 10 to 12 square miles or one or two *chaukidari* unions.

Has it been tried at all?—No.

What are the advantages you hope to have in organizing it that way?—We shall thereby be able to better market the produce of the cultivators. If worked on a smaller scale, I am afraid it would not be self-supporting.

When you make that suggestion what particular produce have you in view?—Mainly rice.

What rate of fluctuation do you notice between the highest and the lowest price of the year? If the lowest is 100 what would be the highest price?—It would be about 140.

What controlling agency would you suggest for your scheme?—The first requisite is an Assistant Registrar who will be the adviser and supervisor of the union and then there should be a committee of management and a qualified manager.

Do you think that these people have the same business ability as others in the line, and is there not a chance that some mistakes will be committed?—In all these things we must proceed slowly and cautiously.

Professor Batheja : Have you got instances of successful sale societies in this province?—No, not in this province, but in Bengal there are several rice and jute societies.

Chairman : How were the societies in Bengal successful?—Because in the earlier stages they got subsidies from Government.

Mr. Hodge : Are they supervised by the Assistant Registrars of Co-operative Societies?—No, they are under Inspectors.

You think that one Assistant Registrar who is specially qualified in this work will have to be deputed to Bengal to study the working of the societies there?—Yes.

Professor Batheja : Does it entirely depend on training?—Yes, a good deal depends on training.

Is it not a fact that co-operative sale societies in this province have always worked at a loss?—It is mostly due to its being done on a small scale and to bad management.

Mr. Hodge : You spoke of Government subsidy. Is it a loan or a grant?—Government should make an annual grant for the first two or three years to meet the working expenses, etc., until it is put on a sound basis.

And you think that a certain amount of propaganda is also necessary to induce societies to join into a union?—Yes, all these things will have to be done before the union could be formed.

Chairman : I have heard it said constantly, but I should like to know what evidence there is for the statement that a great share of produce of the agriculturists is eaten away by the middlemen?—There is certainly some truth in that statement.

Mr. Hodge : Who are these middlemen whom you are referring to?—They are the people who handle the produce and who stand between the producer and the consumer. These middlemen purchase the produce from the producers and then sell them to the consumers.

Chairman : Is there not a considerable amount of competition among the *beparis* themselves?—Yes.

Does not that itself keep the margin of profit very low?—Yes, I think so.

Professor Batheja : Referring to a statement for advances given against produce to *golas*, you say that 70 per cent. of the crop is advanced. Is it not sometimes that something like 90 or 95 per cent. is advanced?—It may be, but to my knowledge not more than 80 per cent. is advanced.

Would you give us some details about the charges paid by co-operative banks for supply bills and telegraphic charges?—It is 2 annas per cent. for supply bills between Rs. 5 and Rs. 10,000 and telegraphic charges extra for telegraphic transfers.

Chairman : How is it that co-operative banks are not allowed to do current account business?—It is probably due to the want of command over liquid resources. It is a restriction imposed by the Government of India.

Professor Batheja : Is it not because the co-operative bank officials will find it too difficult to trace out the correctness of drawers' signatures on cheques that they do not do this business?—It may be both.

Mr. Hodge : Would you advocate the starting of current accounts business by co-operative banks?—Yes.

And overdrafts too?—I won't advocate overdrafts on current accounts.

Professor Batheja : Would you advocate the granting of powers to co-operative banks to deal in remittance business also?—Yes.

Is there any restriction to it at present?—For the present we have not allowed them to do this business.

Chairman : What sort of people would take advantage of the power to send remittances through the central bank in Banka?—Only in subdivisional centres like Jehanabad and big towns people would utilize this facility if offered.

Professor Batheja : Is the public adequately served by post offices for internal remittances?—Yes.

Are not remittances in these places very small?—I cannot say they are very small.

Why are you anxious that the co-operative banks should also be allowed to do all this business when you say that the post offices serve the purpose quite well?—The postal charges for remittances are very heavy and I want the transmission of money to be effected at lesser rates.

By doing all this business, will it not be thrusting too great a responsibility on the managers of the central banks?—I don't think so. I think they could be trusted with these responsibilities.

Why do you think that the licensed warehouse will not be popular in India?—Because it will be an innovation which will take some time to get popular.

Chairman : Do you know what "licensed warehouse" means?—I have read some books on the American system of licensed warehouses.

Professor Batheja : Why do you say that they will not be popular?—Because villagers are likely to fight shy of them.

(Professor Batheja then explained to the witness the method of working of a licensed warehouse and how licensed warehouse receipts would be freely negotiable. The witness then admitted that he will have no objection to the scheme of forming licensed warehouses provided they are properly supervised.)

What sort of supervision would you suggest?—Supervision by Government.

Chairman : The idea is that a certain Government officer would inspect and certify that the goods held in the warehouse is correct against the receipts issued?—That will be all right.

Professor Batheja : Do you also want that these goods in the warehouse should be insured?—Yes, I think it would be better.

Why do you object to the railway receipts being given a negotiable character?—Because it would lead to frauds.

Except for this difficulty these railway receipts serve a good purpose?—Yes.

Chairman : Do you consider the provisions of the Chota Nagpur Tenancy Act and the provisions of the Santal Parganas Regulations an impediment for purposes of mortgage of agricultural holdings?—

Yes. There is a certain amount of restriction in Chota Nagpur and Orissa.

In discussing land mortgage banks in your Memoranda, may I know what classes of clientele you were considering?—The middle class agriculturists such as the *raiya*s and the tennre-holder. I don't refer to the richer class.

Do you think there is a large distinction between the zamindar (including the small zamindars) and *raiya*s?—Yes.

Would it be possible to organize land mortgage banks for the benefit of the small zamindar and leave the co-operative societies to look after the grant of long-term credit to the cultivator himself?—Yes, I would advocate that.

In cases which you mention as having cropped up in Patna, Gaya and other places, do the banks advance to the cultivators or zamindars?—Generally to the cultivators and in a few instances to zamindars as well.

Does that not indicate that the central banks would experience considerable difficulty if they extended their long-term credit very widely?—Yes, they would experience some difficulty that way, but the principle of unlimited liability will mitigate the difficulty.

So you believe that the agency of existing co-operative societies would be more suitable in dealing with long-term credits for the cultivator than the land mortgage banks?—Yes, limited long-term credits, limited in time, to say, ten years.

Do you think that the primary societies would attract business of that kind if the liability were unlimited?—Not to a large extent.

Professor Batheja : Don't you think this limitation of time to ten years would mean bigger *kists* to the agriculturists?—How, in what way, please?

Will there not be serious handicap in the realization of the loans in case of failure of crops?—If it is a long-term loan there should not be any serious handicap.

Will not failure of the monsoon cause some difficulty?—But there may be good and bad years. For the ordinary needs of a small agriculturist ten years' credit would be ample.

Do you think that within ten years he will have enough margin of profit to repay the debt in due time?—Yes, provided at the same time the present rate of interest is reduced to 9 per cent. But I will reduce the rate only gradually and not all at once.

Chairman : Would you suggest having special forms of loans which the primary societies may be empowered to make for the purpose of paying off old debts at 9 per cent. while making other loans as well for ordinary current expenses?—Yes, I would make a distinction between long and short-term loans. The deposits in the central banks are fairly permanent ones, but it would be necessary to issue debentures.

What proportion of the loans should be covered by debentures?—About 50 per cent.

Mr. Hodge : With regard to short-term loans do you think it will be advisable and practicable to have these worked in the villages?—I think it will be quite practicable; otherwise we will not be able to solve the difficulties of the agriculturists. We are trying to induce the central banks to give cash credits to all societies for their short-term requirements. As a matter of fact, they are doing it to some extent.

We have found it that in actual practice it is difficult to combine the two kinds of business.—Almost all agriculturists require both short-term and long-term loans. That is my experience.

Professor Batheja : Don't you think that if you want to make your scheme workable you will have to keep both the activities quite separate?—Yes.

Then practically there will be two banks, one dealing with short-term loans and the other with long-term loans?—Not necessarily, the same bank may have two departments of its own dealing with each separately.

Chairman : How many banks are there at present who actually grant cash credits?—Ten or 12 banks have begun to give cash credits to some selected societies.

Professor Batheja : Is it not a fact that the central bank practically controls the loan policy of the affiliated societies?—To some extent, yes.

Would it be better to confine the grant of long-term credits to co-operative societies of the kind you suggest and give the function of short-term credit to another credit agency?—I don't think it will serve any useful purpose.

Are *mahajans* prepared to give long-term credits to agriculturists?—I don't think so.

For the small agriculturist would it not be better for the co-operative societies to specialise in the long-term credit of the nature you suggest and at the same time do short-term credit if they can compete with the village *mahajans*?—Yes.

Mr. Hodge : As between long and short-term loans you suggest that the co-operative movement should lay emphasis on short-term loans. Is it not the primary business of the co-operative movement?—It is better to emphasize both.

Professor Batheja : Why do you say that the land mortgage banks would cripple the co-operative movement?—Because the well-to-do members of the co-operative societies will go to land mortgage banks.

Chairman : Is it your experience that the principle of "share" is well understood by the ordinary member of the village society?—I don't think it is well understood at present.

You see no prospect of its being understood in the near future?—There is a fair prospect of their understanding these things in the near future.

Professor Batheja : How long will it take?—That depends upon the training that is given to them.

Chairman : Suppose land mortgage banks deal only with landed proprietors. do you think that the existing registration of proprietary interest is sufficient to give the land mortgage banks all that is required by way of its title?—I think so.

As a Revenue Officer, from your experience have you not noticed that the shares shown in the Register D are often at very great variance with actualities?—Yes, sometimes.

Is it possible to get the information about the transfer of shares from the Registration department?—Yes, if all the changes have been effected by registered deeds, but sometimes changes also occur as a result of oral transactions.

In these cases, is there any difficulty in the Hindu law of inheritance in these places?—Yes, that is the biggest difficulty.

Would it be possible in any way to modify the Hindu law of inheritance for properties pledged to these land mortgage banks?—I don't think it possible to modify the law.

Would it be proper to make some provision that if the head of the family borrowed from a land mortgage bank after mortgaging the land it would be strongly presumed that he had done it to clear off the existing debts for the benefit of the whole family?—Yes, that can be done.

Do you find any strong social or religious objection to that?—No.

Supposing land mortgage banks are to be started in this province for the benefit of the small zamindars, what districts would you suggest for an experiment?—Bhagalpur and Gaya, on the ground that there are a large number of zamindars of that class there. I would certainly say that in these matters we should proceed very cautiously.

Mr. Hodge : You have referred to an "Apex Mortgage Bank." Would that be the same as the Provincial Bank?—Yes, it may be the same.

Do you think that the Provincial Bank would be in a position to finance experimental mortgage banks in the beginning?—Yes.

Without even raising debentures?—Yes.

Your recommendations are all in keeping with the recommendations of the Registrars' conference, I presume?—Yes.

Chairman : In working out the details of finance you say there remains Rs. 67,000 for managing charges and sinking fund. On what do you base your management charges?—I have provided for Rs. 17,000 for management charges every year which I think ought to be sufficient.

That works up to about .17 per cent. on the working capital. Is that not very low for the management charges? Is there any particular reason why the management charges of an Apex Mortgage Bank should be less than the management charges of any other bank?—There is no reason why it should be less.

Our experience is that the management charges run up to about 2 per cent. on the working capital.

Professor Batheja : Do you think it possible to raise the money by debentures at the rate of 5 per cent.?—Yes, I think so.

Even the Government loan which offered $5\frac{1}{4}$ per cent. last year was not quite a success?—We might offer $5\frac{1}{2}$ per cent. then.

Mr. Hodge : What is your justification for making the statement that efficient farmers are not being converted into tenants-at-will?—That is my observation.

Do you think it is more general in Orissa or Tirhut?—I am mainly speaking of Bihar. I have not much opportunity of visiting places in Orissa.

Chairman : You anticipate great improvement in the rice-hulling industry by the introduction of small rice-hulling machines. Is it not possible that this industry will receive a set-back owing to competition by rice-milling?—Yes, it will to some extent, but I still hold that the rice-hulling industry will find its way.

You have also said that dairy-farming is an important industry. Is it important except near big towns?—It is only important near big towns.

Mr. Hodge : Dairy-farming has not made any headway in this province?—No.

Would you agree that in order to make it a success it must be done on a big scale?—Yes, with a capital of about 2 lakhs.

How would you find that capital?—By starting a co-operative union financed by the Central Bank or the Provincial Bank. There is a co-operative milk union which is working successfully at Calcutta.

Chairman : Is not the Calcutta business successful because it has got a very large permanent demand which you could hardly expect to get anywhere in Bihar?—Yes, to some extent that is so.

You think you could get sufficient capital to start a dairy farm on a large scale here?—There is no dearth of capital, but there is only dearth of organization.

Professor Batheja : You say there is little competition between co-operative banks and joint stock banks, but we have obtained evidence to show that there is very keen competition between the joint stock banks and co-operative banks in the case of deposits.—To some extent,

yes. There was some competition when our rates for fixed deposits were higher than theirs.

With greater security, co-operative banks should be able to attract better deposits with a reduced rate of interest?—That is what we are trying to do gradually.

Is it not because of the fact that the Directors of the co-operative banks are connected with the central banks that they desire to have a bigger rate of interest for their own deposits?—I don't think so.

Is it not a fact that your savings bank rate is higher than the Imperial Bank rates, or joint stock banks or even post office rates?—Yes.

Don't you think under the circumstances the complaint of the joint stock banks is justified in their statement that they have to meet subsidised competition?—Yes, I admit that their complaint is justified.

Chairman : You say big money-lenders play a considerable part in financing trade and they also sometimes finance the village *mahajans*. Do you consider the amount thus advanced is important or insignificant?—I think it is fairly important.

Have you any personal knowledge about that?—No, that is only my impression.

In how many places have Peoples' banks been established now?—About five or six places, two at Patna, one at Muzaffarpur, another at Gaya and so on.

Professor Batheja : These are Traders' banks in urban areas with limited liability?—Yes.

Are there not cases of failure of these banks?—No, none to my knowledge.

What about the Patna Co-operative Traders' Bank?—It had some set-back due to over-financing.

On what security do people borrow money from the Peoples' banks?—On personal and collateral security.

How long have these Peoples' banks been working?—For over six years.

Chairman : Which is the oldest?—The one at Patna.

Professor Batheja : Do you think there is a danger of these banks being troubled with frozen securities in course of time?—I don't think any trouble need be apprehended, if the Directors are wide awake and insist on punctual realisation of loans.

Chairman : You say with reference to the indigenous bankers that their methods of transacting business are not uniform and that they have no scruples in employing questionable methods if they find that their client is a suitable victim. Do you refer to the big banks?—I am referring to small bankers in the subdivisional towns.

How much are they worth generally?—About, say, Rs. 25,000,

A man of that type, according to you, has no scruples about using questionable methods. Is it true about 90 per cent. of them?—I cannot say that. My experience has been like that in the few cases that I have heard of or come across.

You are not speaking from very wide experience I suppose?—No.

Professor Batheja : You have said that these men do not give more than 6 per cent. on deposits and do not charge less than 12 per cent. on loans, but we have got evidence to the effect that they sometimes charge only 7 per cent. Is that right?—Yes, on very big loans such as zamindari loans.

Mr. Hodge : When you say that there are not very many big indigenous banks, does that rule out banking firms with two or three partners, e.g., in Motihari there are some banks like that?—I don't rule them out.

Professor Batheja : You wish to regulate the operations of the money-lenders by the enactment of an Act like the Punjab Accounts Regulation Act. Would you give us an idea of that Act?—I have only read about the same in papers. I have no personal experience of its working. Under the provisions of this Act, I understand they have to publish their accounts every year.

Would you bring in the village *mahajans* under the operation of this Act?—Yes, everybody who does money-lending business.

Chairman : "Neither a borrower nor a lender be." But, in the villages, either a man is a borrower or a lender. Would you extend the operation of this Act to all people?—I don't advocate the inclusion of private money-lenders under the provisions of this Act.

Professor Batheja : How would you distinguish between a private and a public money-lender?—We can certainly make the distinction between a private money-lender and a professional money-lender.

Chairman : You suggest the establishment of a Central Reserve Bank in each district. What functions would you give to such a bank?—Ordinary banking business including commercial business.

Professor Batheja : Would you scrap the existing Imperial Bank to form a Central Reserve Bank?—Yes, it will have to be scrapped.

Are you aware that even now some of the branches of the Imperial Bank do not pay its way?—Yes.

Then why would you advocate the opening of a branch of the Central Reserve Bank in every district?—Because the benefits to the public at large would be very great indeed.

Do you want the Reserve Bank to be a Government bank?—Yes.

But in the Reserve Bank Bill, it was intended to be a private bank.—Under Government control.

Chairman : What form of compulsion do you advocate for effecting compulsory deposits on the part of members of the co-operative society?—Ultimate expulsion from the society.

Professor Batheja : How much will the members be paid on these compulsory deposits?—About 7 or 8 per cent.

And what will they have to pay on loans?—About 9 per cent.

Chairman : You advocate the opening of current accounts by rural post offices. Do you mean the subdivisional offices?—Yes.

Would it not be competing with co-operative banks if they were allowed to do current account business?—Yes, to some extent.

Professor Batheja : Do you expect that co-operative banks can be extended to all classes of the population within a reasonable time?—Yes, I think it can be extended to all classes of people within 30 or 40 years.

How many people have come within the net of the co-operative movement in this province so far?—It is very negligible. May be about 1 per cent. of the population or even less.

What measures can you suggest for attending to the financial needs of the remaining 99 per cent. of the population who have not been provided for for the next 30 or 40 years?—We don't oppose the creation of other credit agencies.

Chairman : Would you not rather dislike the diversion of the small amount that Government can spend in developing banking facilities from the co-operative movement to any other agency?—No.

Mr. Hodge : You think that if it can be done through the co-operative movement that is the best?—Yes, certainly, and it will be more useful in the long run.

(The witness withdrew and was requested to appear before the Committee again on 26th November 1929.)

**Oral Evidence of Rai Bahadur DURGA PRASAD, M.A., on 26th
November 1929.**

Chairman : On the previous day on which you were examined, Rai Bahadur, you were asked whether there is any statutory obstacle in the way of central banks going into current account business, and you said that you would look up the point and tell us. Am I right in understanding that the only objection is that in 1919 the Government of India on the basis of the report of the Committee on Co-operation recommended that it would be unwise for central or provincial banks to go into this business at present but they added that the discretion of the local Governments should not be fettered and that they would be authorised to admit the practice when they think it desirable?—Yes, that is quite correct. They added a rider, however, that if current accounts were allowed an appreciably higher fluid resource should be maintained.

Have you placed the matter before the local Government since that circular?—No.

Are you prepared to do so now?—Yes, I shall do so now only in regard to special central banks who can carry on this business.

Do you think it is clear that in the end it would not have to go further than the local Government?—Yes.

I understand that you have not been able to get us the information which we were seeking on the Bengal sale societies but you will do so as soon as possible?—Yes.

Is it a fact that the working capital of all the co-operative institutions taken together is about 2½ crores?—Yes.

And if it were extended to cover the whole ground of rural finance, would not something like at least 50 crores be required?—My estimate is about 75 crores.

Did you ever feel that the responsibility for what may be called the larger banking issues concerning such a considerable sum is rather heavy for a single individual?—Very very heavy.

Would it help you in any way if some kind of advisory committee were formed to assist you?—Yes, an advisory committee would be very useful.

What type of advisory committee would you suggest?—I would like to have some bankers on that committee and representatives from some of the central banks.

Professor Batheja : Would you like to get an indigenous banker?—Yes.

Would you like to have a high Government official on the committee?—I do not think it would be necessary to have any more Government official on it. The Registrar would be sufficient.

An officer who has got revenue experience such as the Member of the Board of Revenue?—There is no harm in having him.

Mr. Hodge : Would it be advisable to have a very small committee?—Yes, of course.

Chairman : When a committee has been formed in the past to consider the wider issues of co-operation, an officer who is not closely connected with the co-operative movement has been placed on such a committee. There is then some precedent for placing such an officer on the standing advisory committee?—Yes.

We had it in evidence that long-term loans can be granted by the central banks to small agriculturists against the reserve fund and the share capital of the central bank. Do you agree to that view?—Yes.

Would you limit the grant of long-term loans to that part of the total working capital or would you say that that part of the working capital might carry double the amount of loans for four times?—I would limit it to the reserve capital and the share capital and a certain percentage of the deposits. I would keep that percentage at 25 of the deposits.

Have you any particular reason for that?—Yes, because about 50 per cent. of the deposits are renewed from year to year or from period to period, so it would be quite safe to go up to half the ordinary renewed deposits.

Mr. Hodge : Would it not involve the raising of debentures?—Not necessarily. If we are to grant long-term loans only to the extent of the reserve fund and the share capital and 25 per cent. of the deposits, it would not be necessary to raise debentures. But that would not satisfy the requirements of long-term loans.

But while you were organizing the raising of debentures would it be possible to make experiments on these lines?—Yes.

Chairman : Do you think the experiment would be safe?—Yes.

Mr. Hodge : Again by long-term loans do you mean ten years?—Yes.

Chairman : I think you are collecting statistics for us as to what the amount of long-term loans is?—Yes.

Are you not in a position to say whether that limit which you now suggest is ordinarily reached?—We have not got that.

What is maximum period for which long-term loans are advanced by co-operative societies?—Ten years.

Professor Batheja : I want to know your actual experience?—Yes, up to ten years. Eight years in good many cases, the average would be nearer five.

But if the object of separating out long-term loans from short-term loans was mainly to clear off the existing indebtedness of the *mahajans*, would it be necessary to go beyond ten years?—Not in the case of ordinary agriculturists.

Would not long-term loans have to be given out on lower rates of interest than the existing rate?—Yes.

Would there be no practical difficulty about the same primary society granting to its members both short-term loans on say 15 per cent. and long-term loans on say 12 per cent.?—I do not think there would be any great difficulty. It would all depend on the finance.

Would it be possible to control effectively the distinction between the two and prevent people from applying for a long-term loan and merely getting a short-term loan at a lower rate of interest?—Yes, if the two are made entirely separate.

Chairman : Would not one way of doing that be to allow it to be treated by different sections of the central bank?—Yes.

Would there be no temptation in the way of a borrower to borrow money for a longer period and at a lower rate of interest instead of borrowing money for a shorter period and at a higher rate of interest?—That will have to be checked by the central bank. The loan applications will have to be scrutinized by the staff and the working committee.

Professor Batheja : Do you think that check will operate in actual practice?—Yes.

Chairman : Is it not a fact that in actual practice the purpose of the loan is properly verified by the central bank?—Yes. Now we have got circle officers on the spot in charge of societies. Every application for a loan is checked on the spot before it is forwarded to the central bank.

Is there no possibility of bringing undue influence to bear to convert a short-term loan to a long-term loan?—There is the possibility but there are higher officers of the central bank to check it. I do not say these supervisors would be above it.

Do you think the directors of the central banks can be trusted?—Yes.

Mr. Hodge : Will the principle of unlimited liability continue?—Yes.

Is there not the possibility of conflict between a short-term borrower and a long-term borrower? You have a short-term man who borrows for two years or three years at the most. Will he gladly accept the liability for a long-term loan?—Yes. Because I think every member will have both requirements—short-term and long-term.

From the introduction of long-term loan I was thinking of bringing in the bigger and more substantial agriculturists. Is that not one purpose of the extension?—For the bigger agriculturists and zamindars there should be separate land mortgage banks. I would not bring in the bigger agriculturists.

Chairman : Would you draw the line between the person who is to be catered by the new land mortgage bank and persons to be catered by the existing primary society more or less where the line is drawn now? Would you not try to induce the more substantial *raiayat* to come into the primary society?—Yes.

Do you aim at associating men of more or less the same economic standing?—Yes.

Professor Batheja : What would you do with the present zamindar members of the co-operative societies who have joined them now?—It is not necessary to expel them. They will be allowed to remain. They will go out themselves. If such zamindars apply for a long-term loan they would be told to go to the land mortgage banks.

Would you not relieve the difficulties which I have suggested by charging the same rate of interest for long-term and short-term loans?—I do not think it would be fair. Our aim is to relieve the agricultural community from the load of old debts.

Chairman : Would it not rather tend to overburden the land mortgage bank proper if you take in a large number of substantial *raiayats* as well as zamindars?—Yes, it will tend to that.

Would it not be possible to organize separate primary societies of the substantial *raiyats* under the central bank mainly for the purpose of providing them with long-term loans?—Yes.

Do you think that it would be more advisable?—Yes.

What do you consider is a reasonable margin between the rate at which the central bank can borrow and the rate at which the primary society should lend to its members?—Two per cent.

Is not the gap at present very much above that?—Yes, it is.

Where does the leakage come in?—In the beginning we allowed a larger margin in order to build up a reserve fund but now it is not at all necessary that there should be such a large margin.

I am not sure whether you have understood my question. I ask, what should be the margin between the rate at which a central bank should borrow and the rate at which a primary society should lend?—About 4 to 5 per cent.

Do you think that in old central banks and primary societies there ought to have been an accumulation of capital sufficient to alter or considerably lower the rate?—Yes.

Mr. Hodge : The ordinary central banks borrow say at 6 per cent. from the provincial bank and do you suggest that the member of the village primary society should be able to borrow at 8 per cent.?—No.

Chairman : I do not understand where the 2 per cent. comes in.—The central bank raises its money either from the provincial bank or from deposits at rates which come to between 6 and 7 per cent. If it is a fair-sized central bank it ought to be able to lend out to the societies at $8\frac{1}{2}$ or 9 per cent.

Then at what margin should the societies lend out to the members?—2 per cent.

But even so is not the gap at present wider than that?—Yes.

Is it your opinion that the central bank makes too much profit and has too much overhead charges?—It is both.

Mr. Hodge : Is not the central bank more than a financing agency?—Yes. But the other part of the duty has been neglected by the central bank.

Professor Batheja : In what respect are these overhead charges of central banks excessive?—In the matter of the employment of staff, grant of travelling allowance, etc. A central bank with a working capital of about five lakhs spends about Rs. 10,000 annually on staff and travelling allowance and other contingencies.

Do you think these expenses could safely be reduced without sacrificing the efficiency?—Yes, if they are not doing the supervisional part of their duty.

Do you think that the money which ought to be spent on supervision is not being so spent?—Yes.

Is the pay of the staff excessive?—I do not think the pay of the staff is excessive provided they do the work. In relation to the work done, the staff is too much.

Is the pay also too much in relation to the work done?—No.

Is too much money spent on travelling allowance?—Yes, in some of the banks.

Who gets this travelling allowance—the directors and the inspecting staff?—Both the directors and the inspecting staff if they do touring.

Which portion of the travelling allowance is generally mis-spent?—Some of the touring done by the directors is unnecessary.

Mr. Hodge : Do you discourage touring?—No, provided the touring is good and directed to the benefit of the bank.

Is it not a fact that a great many directors of the central co-operative banks charge no travelling allowance at all?—Yes.

Professor Batheja : Granting there is an abuse in this connection, has the Registrar any power to check this abuse?—No.

Would you like the Registrar to have some power?—I do not think it would be worth while. It is better that they should correct themselves. I do not admit that there is any great abuse at the present moment.

Is there any agency to check this abuse in existence?—There is no particular agency. The department advises the central banks and generally they accept the advice of the department.

Chairman : Could this matter not be brought up at the general meetings?—Yes.

Professor Batheja : Are the directors of the central banks amenable to the opinion of the shareholders?—Certainly.

Do you think that in course of time the shareholders will be able to protect their own interests?—Yes, they are protecting their own interests.

Chairman : While we were in Ranchi, we inspected the Christian central bank and a point raised there was that they used to have several societies in the Gumla subdivision of the Ranchi district, but after that an ordinary central bank was started and those societies were put under considerable pressure to leave the Christian central bank and join the Gumla central bank. Is that so?—Yes.

What was the reason for that pressure?—The main reason is that it is intended to restrict the societies of one particular area to the bank established for that area. At present the Christian societies are scattered over a very large area and, therefore, we wanted to restrict their activities when we established a central bank at Gumla.

Are there any other cases?—Yes.

Could you give me instances?—Yes.

Did not you say some time ago that you wanted all the people of the same interest in each society?—Yes, but not on communal or religious basis.

Why are you against having a religious basis?—Because that is not co-operative.

They want to have these societies affiliated to the Christian bank because they are Christian societies. They do not want to be affiliated to a non-Christian bank?—I do not think it would have been proper on our part to subscribe to that principle.

Professor Batheja : Do not communal divisions in some cases coincide with economic divisions?—In some cases they may **but not in** general. In all societies we have got men of different castes and classes.

Is it not a difficulty in the co-operative movement that some higher caste men do not wish to join members of lower caste men society?—Yes, in some cases.

Would you keep these men out if they have got this prejudice?—Yes. Ours is a democratic institution.

Would you not be satisfied by a democratic organization if it works satisfactorily with members of different castes or community?—No.

Chairman : Your sole objection to this is that you do not want to encourage any spirit of communalism. Is it not?—Yes.

Do you find as a rule that Muhammadans of a village form a fairly large proportion of the societies or wish to form a society themselves?—They do not. No case has come to my notice so far.

Mr. Hodge : Perhaps the Gumla Christian Societies were afraid that they would come under the influence of the urban population of Gumla?—It may have been one of their reasons.

Chairman : Do you think it entirely unreasonable for the people it concerned to prefer to have their societies run by people of their own creed and of their own nationality?—No, I do not think there is anything unreasonable but we do not think it proper to encourage it. What we thought was that their interest would be properly safeguarded and looked after if they came to the Gumla bank. But they did not.

Why were you in a better position to judge this? Was it your decision?—The decision was that of the Deputy Registrar.

Can a Deputy Registrar apply final pressure to societies to take action of that kind?—This matter was referred to Government and Government agreed with the view of the department.

Mr. Hodge : Is there no possibility of their organizing a central bank themselves at Gumla?—No.

In the matter of the development of the thrift habit has the co-operative movement been successful to any great extent?—It has been successful to some extent because one-fifth of the capital involved in the movement now belong to the members of the societies and also the deposits from agriculturists are increasing day by day.

Are you speaking of village societies in Bihar and Orissa?—Yes.

Professor Batheja : Would not a bank working for a large area be able to reduce its overhead charges if it had various branches instead of being split up into a number of small banks?—It may be able to reduce its overhead charges to some extent but the work of supervision and inspection will suffer.

Suppose each branch has a local directorate to secure the supervision. Would your objection be met?—I do not think that would meet the requirements.

Chairman : If you have an existing bank covering a subdivision and you start a branch in a part of that subdivision, then, even if it is merely a branch with a manager, the existing directorate will not have to go any further than they do at present to inspect?—Provided we get good men on the spot where these branches are located. As a matter of fact we started these branch banks in one or two places, for instance at Sherghati, but it failed for want of proper support from the local men.

Was the management bad?—Yes. At present we have a branch in Mahua in Hajipur which is doing fairly well.

Are you experimenting on both?—Yes.

Professor Batheja : If this local directorate of special qualities are available, then would you not object in principle to the starting of branches?—No. As a matter of fact it would be a good thing.

Mr. Hodge : Would you agree with the view that 200 societies in an area are enough for a central bank to operate?—Yes. But we have got banks which have got 300 societies like Nawada but it has become unwieldy.

Would not the only way to meet the need of the subdivision be to open branches?—Yes.

Professor Batheja : Are you in favour of extending the powers and functions of central banks?—They have got enough powers at present. I do not think there is any need for extending them.

You are probably aware that some other witnesses who appeared before the Committee want to take on more functions for central banks, e.g., opening of current accounts and remittance business, the bank being treated as a Government bank in areas where there is no branch of the Imperial Bank, etc. Are you in favour of giving these additional functions to central co-operative banks?—Yes, to such of the central banks as are properly equipped.

Who will decide that?—The Registrar will be in a position to decide.

Government, if they want to give these powers, will have more or less to pass uniform orders. Are you prepared to give them the powers as they are?—No, not generally. I would give it only to special banks.

Taking things generally is the existing staff of the Central Co-operative Bank in a position to take on these functions?—Yes of some of the banks.

What percentage of these banks are in a position to take up this function?—About one-third of the banks.

Do you think that Government should be prepared to give to one-third of the banks the position of the Imperial Bank?—That is a very general question.

Take the case of keeping the Government balance?—There are some of the banks which may be entrusted but they are very few.

Is there any chance of such banks being in financial embarrassment?—I am not prepared to answer this question.

Have the directors and the managers of the Central Banks any training in banking?—Yes they get some training in banking at the classes that have been opened at Sabour, for the last three or four years.

What sort of training is given there?—They are given lectures in banking and accountancy by the Chief Auditor and Assistant Auditor.

Do they have knowledge of the methods of business adopted by joint stock banks or indigenous banks?—They are given some lectures on the methods adopted by the joint stock banks but mainly they are trained in co-operative banking.

Is it not desirable for a Central Co-operative Bank manager or director to know something about the working of other rival institutions?—Yes it may be desirable.

Do you think this knowledge is imparted by the present system of training?—Under the present system the managers are being trained in book-keeping, both co-operative and commercial but not the directors.

Could you kindly supply these courses of studies for the benefit of the Committee?—Yes.

Have there been severe losses to Central Co-operative Banks on account of the ignorance or dishonesty of bank officials and directors?—Yes in a few cases but not in connection with the co-operative societies but in connection with the co-operative stores.

Has it been due to irresponsibility and dishonesty?—Yes.

Chairman: Is it a recognized principle that Government should contribute to make good such losses?—No.

Has any case occurred in which Government has contributed?—Government have only recently contributed Rs. 10,000 to the Ranchi weavers' stores in order to reconstruct the stores.

Is that the first case of the kind?—Yes.

Was that a difficult proposition to get through?—Yes it was.

Do you think it is a dangerous precedent?—The circumstances were exceptional in the case of Ranchi stores because the losses were not at all due to dishonesty. They may be said to be partly due to bad management.

Professor Batheja: It has been suggested that there should be some provision for making the directors responsible for negligent or

dishonest advances of money. Are you in favour of such an idea?—We are considering this question but we have not come to any decision yet.

Is there no provision under the existing organization for bringing home to such directors the responsibility for financial losses?—If it is a case of out and out dishonesty then the ordinary law would suffice, but there is no special provision in the Co-operative Societies Act for bringing home their responsibility.

Is there a tendency on the part of directors to advance money to certain parties recklessly because their own vested interest in the central banks is small?—No. There is no general tendency of this kind but there may be stray cases.

Are there any cases of money having been advanced on personal influence?—Yes there are cases but such cases are not general.

Has the department any means of checking the abuse of powers in this direction?—The directors are all powerful in this matter. We have no statutory powers to interfere in the grant of loans.

I notice in the last annual report of the department you have suggested that a rule may be made for compelling the directors to lower the rate of interest on deposits?—A rule to that effect may be made under the Co-operative Societies Act by Government.

Can a rule of a similar character be made to check the abuse of power by directors?—I have not considered this question.

Chairman : Do the Central Banks publish annually the amount of deposits held by directors and the amount of loans granted to them?—No preference shareholder can get any loan from the bank. It is only the societies which can get loan from the bank.

If a preference shareholder is also a member of a society it ultimately becomes a loan from the bank?—Yes.

Do you think it would be desirable to have that information placed before the general meeting?—Yes.

Mr. Hodge : Are there not very few preference shareholders who are directors of a central bank and are members of the primary societies?—Yes the number would not exceed 12.

Are there any directors who have borrowed money for their own private benefit through some creditor of their own who was a member of the primary society?—Yes one or two cases have come to our notice.

Professor Batheja : It has been suggested by some people that there should be more efficient control in the co-operative movement in order to run it on sounder lines?—Most decidedly yes. By more efficient control I mean more official staff to guide the movement.

Are you in favour of making the Subdivisional Officer the chairman of each central co-operative bank?—Yes.

Mr. Hodge : Do you make that statement without qualification? The Subdivisional Officers are liable to transfers?—Provided he is willing to take up the work and not only for *nam ke waste*.

Professor Batheja : Why do you recommend this greater official control?—Because I find that the central banks have not been exercising that amount of supervision over the societies which they ought to.

Do you think official control will improve the work?—Yes. I would change the word and say official guidance.

Certain witnesses have claimed some facilities for the co-operative movement for instance more money from the Imperial Bank, more money from Government for propaganda, more money for audit, etc. Are you in favour of the grant of these facilities?—I am in favour of Government grant for propaganda.

Are you in favour of Government grant for audit also?—That we are already getting; half the audit charges are contributed by Government.

But some witnesses claimed that all the audit charges should be met by Government?—I am against it.

Do you think the Imperial Bank should be compelled by Act to give more money to central co-operative banks or to Provincial co-operative bank?—I have dealt with it in my memorandum.

R. B. Dhandhanja : Are the chairmen of central banks as a rule officials?—No.

Professor Batheja : Are you in favour of exempting central co-operative banks from the payment of income-tax on the Government securities held by them?—No. I am not in favour of this.

On what consideration are the officers of the Co-operative Department recruited for co-operative work?—We recruit them from the Provincial Executive Service.

Do you insist on any special banking knowledge or experience or any previous training before you recruit them?—We train them after recruitment.

Chairman : For how long do they get the training nowadays?—At present they get training for two months but we want to extend it to six months.

Professor Batheja : What sort of training do they get?—They are sent to experienced Assistant Registrars for training.

Do they know anything of joint stock banks and the methods of indigenous banks?—The present Assistant Registrars know nothing beyond what they have picked up in their day-to-day work.

Do you think he would be able to advise the central banks better if he had better knowledge of the methods of the joint stock banks?—Our proposals are to train the new officers at the Sabour classes where regular lectures will be delivered on banking and accountancy.

Do you think that would be sufficient?—Quite sufficient.

Mr. Hodge : Am I right in thinking that in every central bank there are directors who have got experience of joint stock banks?—Some of them have got,

Chairman : How do you get such a director, say for the Nawada Central Co-operative Bank?—There are one or two who belong to the banking community.

Professor Batheja : Is it true that some of the directors who have got banking experience utilize their knowledge obtained from the central co-operative bank in furthering their own private banks?—I do not think so.

Rai Sahib RAJ PRAKASH NARAIN, Sonaruh, Patna.

Replies to the Questionnaire.

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

The agriculturists may be divided in two classes, namely, those who get sufficient fund to meet all expenses from their own resources and others who have recourse to outside. I confine my answer to latter class.

There were six systems prevalent in this part of the province, namely, (1) *Kist-patti*, (2) *Atith*, (3) *Moghul*, (4) village money-lender, (5) landlords or zamindars and (6) fellow-agriculturists; but since the inauguration of the co-operative movement, (1), (2) and (3) have disappeared, while (4), (5) and (6) are still working on a smaller scale :—

(a) *Atith*, *Moghul*, landlord, and fellow-agriculturists.

(b) *Kist-patti* and money-lenders.

(c) Money-lenders, landlords and fellow-agriculturists.

But now for all purposes co-operative movement is the only financing agency, and those who are not members of the co-operative society are financed by money-lenders, landlords and fellow-agriculturists.

Rate of interest and period.—(1) *Kist-pattivalas*, that was *Sawai* system, that is for Rs. 10 they advanced Rs. 9 and got Rs. 12-8-0 at Re. 1 per month in 12 months which is called *kachha khata*. Similarly for big loans, such as Rs. 100, they advanced about Rs. 95 repayable at Rs. 5 per month in 25 months, which is called *pucca khata*; but on failure of instalments they charge further interest at 6 pies per rupee.

(2) and (3) *Atith* and *Moghul*, they advance in the month of *Jeth* and *Asarh* or *Ashwin* and *Kartik* repayable in *Aghan* and *Pus* or *Baisakh* and *Jeth* respectively, at 6 annas to 8 annas per rupee. On failure on due date they compound the interest with principal and charge the same rate of interest.

(4) and (6) Money-lenders and fellow-agriculturists. Their rate of interest varies between 6 pies to 9 pies per rupee per month; but even now it has been reduced to non-members of co-operative societies to 24 per cent. per annum.

(5) The landlords, who advance money to their tenants, adopt two systems, namely, *sawai*, which is only for cultivation expenses and

always repayable at harvest, and other at varying rate of interest between 6 pies to 9 pies per rupee for all kinds of expenses.

Security.—In all these transactions there is no security, but in case of mortgage they pledge their land in security.

So far I am aware, agriculturists get no help from Government, Imperial Bank, joint stock banks, indigenous bank and bankers or any other organizations except co-operative banks or money-lenders. Of course in rare cases Government advance takavi at Rs. 6 per cent. per annum repayable in one or two years and in some cases in four years as well.

Estimate.—Indeed it is very difficult to give an estimate, which depends upon monsoon as well. In Patna district there are five Central Banks, namely, Barh, Bihar, Futwah, Masaurhi and Dinapur. From the Annual Report of 1927 it appears that the number of co-operative societies in these Central Banks were 547 with a working capital of Rs. 15,63,610. The total number of villages according to last census were 2,324. I am afraid even in one-fourth villages there is no society, still it has absorbed so much capital.

In my opinion these are the defects :—

- (1) There is no provision for long-term loan.
- (2) The rate of interest, though lower in co-operative societies than money-lenders but still higher which is inappreciable to the public.
- (3) Neither money-lender nor co-operative movement could distinguish short and long-term loans for want of provision for the latter, in consequence poor agriculturists are practically confused.
- (4) There is no arrangement for protecting agriculture, that is neither there is provision to supply water during drought nor that can be protected from flood.
- (5) When harvest fails, however solvent one may be, his credit is shaken and many have to face innumerable troubles and miseries.
- (6) The trouble between landlords and tenants on account of defective law of land is not less responsible for economic distress of agriculturists. It may be considered irrelevant in this enquiry, but as it relates to credit facilities to agriculturists I venture to point out these radical defects as well.
- (7) Practically there is no law to protect borrowers from exaction of interest by creditors such as the Deccan Relief Act or the Punjab Regulation of Accounts Act.

Suggestions.—There is one recognized agency for financing agriculturists, that is co-operative movement, therefore I think it is desirable that the credit of each member may be fixed once for all till there is

change in his assets. Generally in making valuations of properties care may be taken of prevailing rate of price of land out of which up to 40 to 50 per cent. may be fixed as his credit. They mortgage their entire holding to the society. Out of such maximum credit fixed certain percentage, say 25 per cent., may be set apart for short-term, the remaining, that is 75 per cent., for long-term.

There ought to be one financing agency, that is primary society. Now it is the outlook of the primary society to secure money either from central bank or from other agency. Preferably primary society may pledge such security with the central bank which may get finance from the Provincial Bank on the security of those mortgages. The Provincial Bank or the central bank may float debentures on the strength of those securities and the Government should subscribe at least 50 per cent. The rate of interest on such debentures may be at $4\frac{1}{2}$ per cent., repayable in 30 years, with the condition to grant bonus up to one per cent. if the institution issuing debentures could get sufficient profit after defraying all legal obligations, whereas either Provincial Bank or central bank should advance it at 5 per cent. so that primary society may advance it at $7\frac{1}{2}$ per cent. to members, then of course economic distress may be lightened.

I am not in favour of asking agriculturists to get their fund from two different institutions. They must confine to get all funds from one agency. The dangers of two financing agencies are manifold, such as at the time of repayment they may borrow from one institution and may repay the other, or *vice versa*, with the result that instead of helping them that would be a way of ruin.

For those who are outside co-operative sphere have recourse to money-lenders; but when these facilities will be opened it would be conducive to them to join with it.

I am afraid whether my above suggestions would be acceptable for want of sufficient funds. Therefore it is desirable that those funds of Government which are lying idle with the Imperial Bank may be placed at the disposal of either the Provincial or central bank. But even if it be inadequate, State may issue currency ear-marked for financing agriculturists. By issuing such currency Government may help them by advancing through these agencies without interest for ten years. The money so advanced may be recovered from members in two ways. namely in the one, the members will have to repay it at Rs. 5 per year per hundred as principal and Rs. 5 as interest, thus in ten years the entire loan of Rs. 100 would be satisfied, whereas after ten years the members will have to repay the remaining Rs. 50 at Rs. 5 per year as principal without interest. In this way the State issuing currency will get Rs. 50 in 20 years as surplus which would be in lieu of the favour done by the State. The members have to pay in addition to its supervision expenses to primary society as well as to central and Provincial banks.

The other system which appears to me reasonable is that the members may be asked to pay at Rs. 5 for 28½ years continuously. This equated system will pay Government interest at Rs. 2-8-0 per cent.

But in making suggestions for issuing currency for remedying chronic indebtedness of agriculturists, I am not unmindful about the difficulties that the Government have to face, that some reserve has to be maintained before deciding to issuing fresh currency. But I am much relieved to find that even Royal Commission on Indian Currency and Finance did not fix any percentage for providing reserve, as there is no statutory provision for it, vide paragraph 15. Whatever may be, the question of reserve does not arise, because after a year, according to my first scheme, Government will get at least 10 per cent. which may be treated as reserve for exigency. In the same paragraph of the report for rupee circulation of 350 to 400 crores there are 53½ crores reserve which comes to 12 to 15 per cent. Besides, issue of currency papers within the amount of coin in circulation is not unadvisable according to Mr. John Todd, vide page 84 and Gide as well. Therefore, when rupee coin in circulation is estimated at Rs. 350 crores, there would be no danger in issuing paper currency to remove chronic indebtedness of agriculturists. In such a case it would not be difficult if Government extend its generosity to agriculturists by issuing either currency or land mortgage banks.

Some may urge that by issuing currency it may affect the market, but without hesitation I assert that even if it affects market it would be temporary. Because the moment the agriculturists will be free from economic struggle they would increase the productive capacity of land and then the market rate will be adjusted.

Turning to my other suggestion for controlling drought and flood, to me it appears desirable to introduce either canal system in large scale or make such provision that when majority of cultivators of any defined area within a village want to undertake any improvement of land, they may approach Collector who may sanction it and others may be compelled to contribute to their quota.

As finance is interdependent with the law of the land therefore it seems to me desirable to see whether the existing law of the land is of any help in developing banking facilities.

The Tenancy Act is at anvil therefore it is premature to say how far this Act will protect agriculturists. But it is necessary to make such provision as can avoid litigation between landlords and tenants. The easiest way to check it would be to provide in one form or another to appoint arbitrators by landlords and tenants and another man as umpire by the Collector or Judge whose judgment would be final about any dispute between them.

Another important point which struck me is that deposit of rent in co-operative banks by tenant members, after duly notifying to the landlord, may be considered as valid tender in the eye of the law.

2. *Marketing*.—There are certain ways of marketing principal crops.

- (1) At the time of harvest petty traders purchase crops from agriculturists and either they stock it in the commission agency (*arhatdar*) or they sell it to local traders. In the former, they get advance on the stock at about 75 per cent. of the market value of their goods. The commission agents charge commission varying from one to one-four per cent. upon the sale-proceeds of the stock.

Interest at 12 annas to Rs. 1-4-0 per cent. is also charged upon the advance which is called *mal-petti*. Certain other items they charge, according to the custom of the market, such as brokerage at the rate of 5 annas per cent., clarity at 3 pies per cent., *bardana* at 10 annas per cent., and some other petty items. The big traders purchase it to export outside the province.

- (2) The agriculturists stock their grains with the commission agent (*arhatdar*) or sell it themselves; in case of necessity, they get advance too but in other respects they are subjected to the above usages.

Forming pools.—As regards forming pools on co-operative basis I would like to mention that I organized a co-operative store at Fatwah with the object of joint sale, that is pooling crops from the members and selling them jointly. It was started in 1918 and it was closed in the year 1924. The reasons of its failure were:—

- (a) Lack of loyalty of members in the beginning.
- (b) Uncertainty of market, that is, during harvest, market remained dearer and in the months of August to November it became so dull that the depositors of grains sustained heavy loss.
- (c) Lack of honesty in the agent.
- (d) Hard competition in the market.
- (e) Though I made serious attempt to export grains direct to foreign countries but they refused to accept as they have no confidence that they would get unadulterated goods.
- (f) Then I tried my best to find out some co-operative institution outside the province for export, but in vain.
- (g) We could not meet running expenditure out of commission; of course, we rendered valuable help to the general public in supplying foodstuff, that is Rangoon rice, etc., during scarcity on moderate rate.
- (h) The practice in the market is to send goods on credit, whereas according to our by-laws it was strictly prohibited.
- (i) There was a hard competition with the local trader who could indulge himself to give more facility apparently but he

realised indirectly, whereas in our effort we could not allow either way.

Therefore, I am not confident of its success but still attempt will be made to have store or warehouse on co-operative lines.

Credit facilities.—Practically there is no facility for agriculturists except who advance on deposit of grains. I am not aware of any other facility; but big traders used to hand over Railway receipts to Imperial Bank or joint stock banks for collection. The banks who collect it realize at 4 annas per cent. as commission.

In marketing, traders stock their grains similarly, joint stock banks also advance money to those who place their stock in their charge and get money at a certain percentage upon the market value at a certain rate of interest.

If at the time of harvest agriculturists get money at a cheaper rate of interest, they may withhold their grain for better time or they may stock their grain if any agency be formed for better marketing, till they get advance. I am not aware of any other difference except in the freight of railways between external and internal trades which seems to be very acrimonious.

So far I know *banias* and Marwaris as a class are dealers during the process of marketing.

Internal remittances.—(1) Postal money order, (2) Telegraphic Transfer, (3) Cheques, (4) Bank-drafts, (5) Railway receipts and (6) *Hundis*.

Hundis.—I am enclosing herewith copies of five *hundis*, namely :—

- (1) *Muddati*.—Repayable on 30, 60, 90 days, or so on.
- (2) *Dhanijog*.—Payment on presentation but may pass through many hands.
- (3) *Sahyog*.—Payment on presentation, passable through many hands, but has lesser value than (2).
- (4) *Pait-Sakar*.—When *hundi* is lost, anyhow then it is written by drawer.
- (5) *Par-Pait-Sakar*.—If even (4) is lost, anyhow then it is re-written by drawer.

I understand that *hundi* or Bill-of-Exchange is under Negotiable Instruments Act, but I am not in a position to state its defects. Moreover, if railway receipt be also recognized under Negotiable Instruments Act, it would be much helpful in facilitating the business but it is certain that reduction of duty would make its use more popular.

Generally *hundis* are discounted in the provincial centres. They generally pass through the hands of merchants, commission agents, and other middlemen. If local central bank is allowed to collect railway receipts, that would be helpful to local merchants and would save them from going to central places for depositing railway receipts and bringing money after collection.

Licensed warehouses will undoubtedly help merchants, but I am afraid they will not help agriculturists, unless they will pool their crop at a central place on co-operative lines. Of course these houses may be termed as such. Because private dealers have got their own godowns and need no such licensing, Government assistance is necessary to encourage those who are not accustomed to stock their crops jointly.

3. The price of land does not depend upon different kinds of crops only, rather other factors are also responsible in fixing value of land, such as (1) provision for irrigation, (2) system and rate of rent, (3) facilities for marketing, (4) yielding capacity of land; (5) likewise surroundings of better class of men is also one of the important factors. Potatoes, chillies, tobacco, onion and other vegetable-growing lands, especially in the vicinity of market, could fetch more than Rs. 500 to Rs. 1,000 per acre; for instance, in Patna the value of such lands is above Rs. 1,000 per acre, whereas in Fatwah, though near Patna, such land cannot fetch more than Rs. 800 but Bakhtiarpore and Barh, though at a distance, can fetch more than Rs. 1,200.

In the same way paddy land can fetch Rs. 500 to Rs. 600 per acre, but in certain places the price is more than Rs. 1,000 per acre for paddy land as well; *rabi* land can get Rs. 300 to Rs. 500 per acre. But price of land everywhere is going up every now and then. Land not worth Rs. 20 per acre about 15 years back is hardly acquirable at Rs. 600 per acre.

There is rare case where land has been sold by Government for realization of revenue as it is the landlord who is responsible for revenue, therefore tenants' lands cannot be sold for realization of Government revenue. But in case of rent decree, I am afraid it secures very small price. The reasons are that tenants often do not choose to go to court as the process of the Civil Court sale is very tedious especially for agriculturists who are not accustomed to go in law courts. It is also possible that in many cases they do not take notice of processes which have been served in the villages. Apart from it there is hardly any scope for keen competition in sale by court.

It is in the private negotiation that price has been raised.

4. Though there is no legal impediment in mortgage but in consequence of mortgage question sale is inevitable. The following obstacles are always apprehended :—

- (1) Want of custom for sale.
- (2) Where there is custom, non-recognition by landlord.
- (3) There is no facility to ascertain encumbrance and title.

There is neither land mortgage bank nor agricultural bank in this province. The fact is that in this province there is no provision for long-term loans.

The recent development in the co-operative movement to get collateral security from members may be considered as land mortgage but without provision for long-term loans.

As regards suggestions I have already said in my answer to question no. 1 :—

- (a) There is necessity of improvement in the record-of-rights to avoid possibility of disputes such as :—
 - (1) All subsequent changes should be recorded in the record-of-rights.
 - (2) The easiest way to enforce it would be to have a mutation clerk either attached with Registration Department for each thana or a separate office in every thana who will maintain a register of every change, i.e.,
 - (i) mortgage, (ii) transfer, (iii) surrender, (iv) division, and (v) any other changes will be recorded.
 - (3) To meet expenses of maintaining such staff a nominal fee of anna one or more may be imposed on every entry.
 - (4) In view of such additional expenses the existing registration fee which has been recently increased may be reduced.
 - (5) But till the establishment of such office, Government be pleased to grant information regarding encumbrances and titles free of charge such as in the Madras Presidency.
- (b) It requires especial enactments, otherwise under present Act only the English Mortgage would be applicable but to enforce foreclosure and sale, land mortgage bank has to enforce it through Civil Court which will entail heavy expense.
- (c) The suggestion made in reply to question no. 4 (a), either bank or constituent may refer to Mutation register, on payment of a nominal sum, may take a copy of it or may get information regarding title as well as encumbrance from said register.

When a mortgage bank be started certainly, capital may be derived from all resources, i.e., funds from central institutions and debentures. But for starting mortgage bank I think it would be necessary to float debentures. I understand that Government guarantee would give great impetus. I do not think there is any chance of any loss to Government, because Government will advance money to either Provincial Bank, central bank or primary societies. I am not in favour of advancing money direct to agriculturists.

The agriculturists are badly in need of long-term loan, whether it be land mortgage bank or agricultural bank, there would not be much difference. In no case deposits will help much because they cannot be more than for three to five years, whereas the requirements are

for longer periods, sometimes even for more than 20 years. Therefore the suggestions made in answer to the first question cover these questions. Assuming that Provincial Bank be converted into provincial agricultural bank with the power to issue debentures it will reduce the expenditure of running the institution as well as duplication of work would be reduced and activity of co-operators will be strengthened as then grievances for long-term would be removed. Otherwise there would be an unnecessary competition between two institutions both for the benefit of agriculturists in attracting deposits. Therefore I prefer conversion of the existing Provincial Bank into provincial agricultural mortgage bank not only to avoid competition but to give a start on sound business line.

5. Estimated agricultural indebtedness—Rs. 50,00,00,000 for the whole province and Rs. 2,00,00,000 for the Patna district only.

From the census report of 1921 it appears that there are 84,804 villages excluding towns in Bihar, Orissa and Chota Nagpur. Out of these villages on 31st December 1927 there were 7,827 agricultural societies. The members of these societies owe to the societies Rs. 1,70,66,428. It means that about 1/11th of the villages are tapped with the co-operative movement. So on the same basis if I multiply their indebtedness by 11 it comes to Rs. 18,77,00,000. I understand that average by 1/3rd people of those villages have not joined the movement. In this 1/3rd very few, rather not more than 10 per cent., are agriculturists and the rest are labourers, still I add upon it half, i.e., Rs. 9,38,00,000 which will give the total of Rs. 28,15,00,000.

In support of my this estimate I would like to mention that the total number of occupied houses in the villages are 6,364,536 which comes to 75 houses per village. I understand that out of them at least 50 per cent. are agriculturists. This will bring down 75 to 37.5. Out of them at least 5 per cent. agriculturists are practically independent of financial aid. If I exclude about 2½ per cent. it will come to 35. The average member per society, total number of members being 188,340, comes to about 23 per village. Therefore my estimate for adding half upon the existing indebtedness of the members of co-operative societies is supported by this figure as well.

Although I am not sure that the members of the co-operative societies owe much to outsiders, still those who are indebted might have pledged their lands under usufructuary mortgage in order to stop running of interest; therefore I make provision of 40 per cent. over their total debt to societies, which means about 12 crores, the total comes to 40 crores. I still add 10 crores in view of the debts incurred by labourers, which are always very small amount, over it to make it 50 crores.

15. (a) As an experiment I have taken figure of Machhariawan (police-station Fatwa, district Patna), a village of an average type consisting of 142 families. Their total indebtedness comes to Rs. 18,885

out of which they owe Rs. 7,073 to co-operative movement, Rs. 8,443 on usufructuary mortgage, Rs. 2,447 cash debt and Rs. 922 miscellaneous debt. They owe nothing to landlords, money-lenders, etc., except either to co-operative society or fellow-agriculturists. As the total indebtedness to co-operative movement in the whole of the province is Rs. 1,70,66,428 and the total indebtedness of a village is Rs. 7,073 to co-operative society, and total general indebtedness of the whole village is Rs. 18,885, thus against Rs. 1,70,66,428 it comes to Rs. 4,52,56,630 and if I multiply it by 11, which is the ratio between the number of villages and number of societies in the province as indicated above, it would come to about 50 crores.

(a) To ascertain mortgage debt it may be easy to take figure from the Registration Department, but to me it appears that not more than 10 crores, i.e., 25 per cent. are on landed security.

(b) I am not in a position to say anything except that out of this debt there may be a nominal sum under the judicial courts.

(c) It is difficult to give an estimate of it. Debts are incurred for all the purposes enumerated in the question except (g). All these debts are due by co-operative movement, money-lenders, indigenous bankers and well-to-do agriculturists; but nothing to Government or joint stock banks. and if there be any it would be a very insignificant amount.

The rate of interest varies between 12 and 75 per cent. But those who advance money at *kist-patti* their charge would come to over cent. per cent. Indigenous bankers charge between 15 to 40 per cent. Whereas in co-operative movement the rate also varies between 12 to 15½ per cent. and in very rare cases it goes up to 18 per cent. The money-lenders or indigenous bankers generally calculate compound interest every year. The last resort for enforcing payment is to get court decree.

I know personally many well-to-do agriculturists, who have been reduced to the class of labourers on account of heavy indebtedness. in many cases by the tricks played by the money-lenders. Though the co-operative movement has wiped away many such money-lenders and opened the eyes of the agriculturists but still there are many whose sole object is to exploit the poor agriculturists by fair means or foul. One of the processes for exploitation is to withhold receipt of payment; but when any difference arises creditors have recourse in civil court, ignoring all payments towards interest or principal. Even failure of crops or other calamity does not appeal to the unscrupulous money-lender to withhold his action, rather they take advantage of such occasion. Naturally when one becomes confident that all his yieldings will go to fill the purse of others and he will continue to remain a labourer he will lose all the incentive and enthusiasm for the occupation. Certainly it will injure his efficiency for better production.

6. Rice-milling, dairy farming, *gud*-making, cleansing of lentils, rope-twisting are undoubtedly among some of the allied industries with agriculture. But of these Chanti-making or cleansing of lentils and rice-milling are more prominent and extensive in this part of the province and the labourers generally depend upon them.

There are many small industries, which, if put on the co-operative basis, may yield better return.

In making suggestions for the introduction of any enterprise for the employment of the farmers during slack season I would like to base my contention on economic considerations. There are two necessities of life, namely, food and cloth. The agriculturists being producers of the former feel no difficulty in it. But in the case of the latter they are entirely dependent upon others. If this dependence be removed they may be self-contained and may get relief. Therefore it is desirable that they may be induced to utilize their leisure hours in spinning and weaving in order to get their requirements from their own outturns. Neither it will cost much nor will it interfere in their permanent occupation. Agriculturists may be induced to take up *Eri-culture* which will pay them enough to meet their cash requirements without hindering their own profession.

7. So far I am aware co-operative banks have no other concerns except some cash credits have been granted by the Imperial Bank only. With other banks there is absolutely no connection.

The co-operative societies have to content themselves with their limited resources through their own channel. It is only the Provincial Bank which gets only cash credits of the amount of four lakhs on the guarantee of four landed magnates of the province, three lakhs on Promissory Notes of the central banks and the rest, if required, on Government securities. There is no provision for long-term credits except their own reserve funds and share capital. The facilities are more restricted inasmuch as even cheques upon Provincial Banks is neither acceptable direct by the Imperial Bank nor they have got any such facility from the branches of the Imperial Bank or Government Treasury.

The co-operative societies get only money repayable within one to four years which cannot be served for the purpose of long-terms. As regards difficulties in getting finance for long-term, it is as chronic as Indian indebtedness itself. I have already stated the need of the agricultural class. There is a great demand for societies which indicates that there is need for extra money, but to arrive at an estimate it is very difficult to give an accurate amount.

There is competition between joint stock banks and co-operative banks in securing deposits. But there is no competition in advancing or lending money to agriculturists.

The Government have already exempted the co-operative banks from income-tax upon the income derived from investment in

co-operative institutions but not from investments in Government security. In my opinion it is desirable that co-operative banks may be exempted from all kinds of taxations such as income-tax, super-tax, etc., upon all income derived either from co-operative institutions or Government securities. It is desirable that debentures issued by Provincial Bank may be included in the list of Trust Security. Further, deposit of funds by local bodies and court of wards in the co-operative banks may be legalised by amending necessary laws. In places where the Imperial Bank or its branches do not exist, for example the subdivisions, Government may employ the co-operative banks as an agency for transacting Government business which are at present discharged by a separate sub-treasury office. The advantage reaped by the co-operative movement will pre-eminently be great and without in any way hampering the work of the Government, inasmuch as the co-operative banks will have funds at their hands without paying any interest, at least temporarily.

In my last suggestion be accepted, it will expand credit facility to co-operative banks as their cheques will be acceptable freely at least in other parts of the province.

II. INDIGENOUS BANKING.

1. In fact the number of indigenous banks and bankers are very limited in this part of the province. Their chief function is to advance money to the traders. They also deal with *hundis*. They often grant cash credit to substantial persons taking indemnity bonds.

2. They finance small industrial enterprise and traders. But in places like Patna the Traders' Bank or the Peoples' Bank has reduced its volume of work, but so far I am aware agriculturists get practically no financial help from them, and if there is any it may be in a small degree.

3. There is no established organization for indigenous banking but it is some big people who undertake this kind of business.

(a) When there is no systematic way of organization the amount of capital invested will naturally be fluctuating and varying.

(b) The volume of business depends upon the reputation in the market and investment of capital.

(c) Their establishment is not very expensive, which depends upon the volume of business.

(d) They have no relation with co-operative banks but they have got some transaction with the Imperial Bank and joint stock banks.

4. I am not aware of any kind of *hundi* except those copies of which are attached herewith.

5. On security either of land, house or ornaments they advance loans or grant cash credit but their term is generally to calculate interest with principal after the close of the year. They also charge *salami* on presentation at the time of granting loans or cash credits.

As regards funds they get help sometimes from joint stock bank or issue *hundis*. The rate of interest which they pay to depositors is between 6 to 9 per cent. per annum.

6. Agriculturists have very little recourse with indigenous banks. The indigenous bankers or money-lenders charge interest between 15 to 40 per cent. Either by co-operative effort or by passing any legislation on the line of Deccan Agriculturists' Relief Act, that would be helpful not only to agriculturists, but also to the creditors. Because in going to Civil Court they often spend much more on litigation than what they actually recover. In the same legislation either uniform or maximum rate of interest should be fixed, over which even by contract may be considered as illegal.

Certainly reduction in the rate of interest will confer great benefit to the agricultural community, thereby their standard of living may be improved and they may spend more on agricultural improvements.

7. Yes.

I do not know whether they are sufficiently protected by law, but if their account be subjected to be examined by any authority it would be beneficial to them as well as to their clients.

8. I am afraid in comparison to co-operative movement it would not be more serviceable to the community but if the maximum rate of interest to be charged be legalised and some legislation on the line suggested above be enacted and their accounts be examined by some authority, then of course they may be more serviceable.

9. In some cases often they sustain heavy loss when subjected to litigation with some clever debtors. Apart from this their expenses in comparison with their income are very small and very seldom they lose anything on account of the incapability of debtors.

Accordingly if their average rate of interest comes to 2 per cent. their recurring expenses would not be more than 4 annas per cent., rather less, because the business is carried on by themselves and they appoint only some peon and accountant.

10. I understand they often refuse advancing money for want of proper security as well as unattractive rate of interest offered by debtors and also for inadequacy of funds. But as there is no systematic way of lending money question of inadequacy of fund does not arise, sometimes if someone offers higher rates of interest they agree to advance. Hence no proper estimate can be made.

11. I am afraid the number of indigenous banking is not much at least in this province and those which are still in existence have connection either with the Imperial Bank or joint stock banks. But if local banks are established in each district with local directors, it is possible that they may infuse confidence in the indigenous bankers. In every district or subdivision there is at least one co-operative central bank where prominent moneyed men or indigenous bankers are among directors still they have very little transaction with them.

12. Had there been unemployed money with the indigenous bankers they would have deposited in some banks, but possibly for want of better rates of interest they might be keeping some money unemployed. It is possible that branches of banks are more with a view to secure deposit than to advance money. In the case of former they utilize funds raised thereby outside the province but in case of latter, they would have been more serviceable to the people of the place. It seems to me difficult to check such transmission of money but if any restriction be imposed it may render some relief in lowering down rate of interest.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. (a) Indeed it is difficult to give the banking resources in the province.

In dealing with other questions I have already mentioned the necessity of additional capital required, especially for long terms. And therefore I have already suggested that Government may issue currency to supplement additional capital, because the moment long-term facilities will be acceded to, the demand of additional capital will arise.

Encouragement for—

(a) *Saving*.—Post office, co-operative banks, joint stock banks, Imperial Bank and insurance and assurance companies;

(b) *Investment habit*.—Purchase of lands, share in business enterprise and construction of buildings in towns.

There seems to me one of the drawbacks that almost all papers of banking business are published in English which are not intelligible to public at large. The stamp on receipt for the withdrawal from Savings bank accounts specially in co-operative banks is a stumbling block in the way of investment.

The existing facilities may be improved by the—

(a) Introduction of current account in central banks.

(b) Abolition of the system of one anna stamp on the withdrawal of money from Savings bank accounts.

(c) Publication of business papers in vernacular.

(d) Making strenuous propaganda for persuading people to open account with the investing institutions.

The habit to invest money in silver or gold is due to the following reasons :—

(1) Luxury for ornaments.

(2) Custom and habit.

(3) Ignorance of other ways of investment.

(4) Easily exchangeable in time of need.

(5) Small doses of surplus.

2. I am afraid Postal Cash Certificate, so far I am aware, is not so much popular as Savings Banks and it seems to me difficult to popularise it because during the war time, after a great persuasion, people subscribed to it. Since then it has been very rarely subscribed.

When Government have issued other securities carrying higher rates of interest it won't be inducive to the public to purchase cash certificates.

I think Savings Banks afford all possible facilities.

Generally Government servants and rarely other classes such as traders.

I have nothing to say regarding competition between Government and other banking institutions and banks.

3. Whatever facilities may be for purchasing Government securities, but it is difficult to get back money specially when the holder of such securities is ignorant; for instance I purchased Government security which was endorsed by the pen of other person but thumb impression of the holder was affixed thereon. When it was sent to Public Debt Office it was pointed out that the endorsement has been made in wrong column. By that time the writer of the endorsement died. Another endorsement was made on the identification of a mukhtear as directed by the Public Debt Office.

The Treasury Officer accepted it but the Public Debt Office again refused it. By that time the writer of the second endorsement was also dead. In the presence of the Subdivisional Officer the thumb impression was again affixed in the proper column, still the money has not yet been refunded. Barh Central Bank has purchased Government securities worth more than Rs. 8,600. Since last five or six years have passed in correspondence but no refund. Kindly imagine if an ignorant agriculturist undergo such troubles for investing his surplus money. I am afraid, Government security cannot be conveniently purchased by ignorant mass.

So far I am aware there is no other security available, at least in this province.

When agriculturists dispose off their crops after paying rents, debts and other necessities of household affairs, even then if they get some surplus they invest it either in land or keep it with themselves. They also lend their money to their needy fellow-agriculturists on terms as money-lenders advance it.

4. The cheque habit is confined to urban people only as even in co-operative bank cheque has not yet been introduced except in Provincial Bank. Therefore this system is not much popular in the mufassal. Admittedly the progress is very slow for want of sufficient facility. The abolition of Stamp duty on cheques has extended its circulation. But in my opinion cheque may be introduced for Savings Bank accounts as well. It will be more popular, rather would serve as a propaganda among illiterate people, provided the script be also

in vernacular and at the same time endorsement be acceptable in vernacular. I also suggest that the system of credit cheque such as in England may be introduced in banks which will give great facility to investing public and the Negotiable Instruments Act be amended accordingly to give it legal status.

Payment by cheque to Government servants will entail some trouble upon the employees who are accustomed to get hard cash from the office concerned. But instead of sending consolidated bills after passing by controlling officers, it seems to me more convenient to issue consolidated cheques. In my opinion in this suggestion some confusion may arise to hand over so many cheque-books to controlling officers, therefore treasury officer may be authorised to issue cheques after the bill is passed by him, instead of controlling officers. This will avoid only sending bills to banks.

5. Vide my answer to Additional Question no. 1.

In addition to that I would like to mention that opening of central bank is attractive to the public for depositing their money in the banks. Undoubtedly the opening of the branches of Imperial Bank has extended banking activities in the places where it has been opened. I am afraid whether Government will like to spend in making propaganda because the co-operative movement has undertaken the burden upon itself, on the understanding that Government will contribute to meet the expenses, but in spite of crying hoarse by co-operators, the annual grant of Rs. 5,000 has not yet been increased though the budget of development branch comes to over Rs. 60,000 out of which contribution by co-operative comes to about Rs. 45,000. The object of this department is to train workers, educate members for better farming, better living and better business. The last covers the object of this question. In other provinces Government liberally pay for education, propaganda and audit. If Government relieve members from this burden that will reduce their charge by something about one per cent.

Replies to the additional questions.

1. Generally speaking, in this province, banking activity is confined to educated urban people, but since the co-operative movement is spreading, the banking activity is extending in rural areas even. Obviously in comparison with other provinces the people of this province may be backward. The reasons that seem to me plausible are as follows :—

- (1) Comparatively middle class people of this province are poorer than other provinces. So unless one has got surplus money, it is difficult to take advantage of banking transaction.
- (2) The illiteracy is not less responsible for it.
- (3) There are very few banks which are confined to certain important places, thus where there is such facility the

people are taking advantage of it, but still it is confined to educated community only.

- (4) Apart from educated community, traders and merchant classes take advantage of the banking facility better than agricultural community.
- (5) Rural people apprehend to put their surplus if any in bank which is due to their ignorance of banking transaction. In consequence either they invest their money in money-lending or in land, but generally money-lending is preliminary to investment in land.
- (6) The other aspect is that they lock up their money in land so that they may not spend it unnecessarily.

2. In this province, especially in Patna, there are only four banks, namely, (i) Imperial Bank, (ii) Allahabad Bank, (iii) Behar Bank, and (iv) Provincial Co-operative Bank. It is difficult indeed to say that they get money here and send outside the province unless we examine their accounts. But generally all banks have to invest a large portion of their working capital in Government securities. If this money be utilized in the province, admittedly lending rate may go down.

3. (a) Practically in every subdivision there is a co-operative bank, therefore it is not desirable that Savings Bank deposit in post office would be more attractive to people. Of course there is one facility that in the latter at the time of withdrawal it does not require stamp whereas in the central bank they take stamp on every transaction over Rs. 20. This operation is a ban to the investing public. As regards accepting current account on which customers could withdraw by cheque, it would be helpful to investing public, but my apprehension is that post office being not accustomed with this sort of transaction may feel difficulty. Still it is desirable to make experiment.

(b) In view of my reply to question no. 3(a), I think it would be difficult if not impossible for post office to undertake the discounting business which is not free from risk, for which post offices may be inefficient, rather some facility may be extended to the central banks where they exist. But as an experiment some post offices may be authorized to discount credit paper of approved persons or institutions backed by substantial persons, if adequate security they offer, but in no case more than one thousand may be fixed for such transaction. The maximum rate of discount should not exceed 2 annas per cent.

4. I do not think that there is sufficient scope to open pawnshops, etc. Rather existing banks may be encouraged to open branches in every subdivision and important towns.

5. Yes, petty traders generally do this business of mixing up of price of cloth and of grain with cash lending, in consequence the dishonest creditor often play more tricks with ignorant clients. I am afraid legislation cannot check it, because unless debtor will take shelter

in law courts, which is more expensive, the legislation won't save them from the dishonest creditors. The confidence in money-lenders has been greatly shaken and it is difficult to restore it, because the inauguration of the co-operative movement has opened the eyes of people who have come in its touch and those who are not in touch, the money-lenders themselves generally apprehend that client may not go out of control. Therefore they are moderating their evil attitude.

6. I am afraid indigenous banks have no idea of pooling information from their client but what they want is to pool as much as they can. But if they collect informations other than security for their money they may render some help to their clients. When co-operative movement pools informations without libel, there is no danger that law of libel will hinder them.

7. I understand that if the co-operative movement gets some facility in popularising its operation, there would be no necessity of licensed or registered money-lenders because this movement is controlled and supervised by the State and for want of proper aid from the State it is not rendering desired help to agriculturists or traders.

In my opinion the co-operative movement is not in possession of sufficient funds to relieve the agriculturists or small traders from economic distress. The floating of debentures by starting land mortgage banks to finance primary societies, to advance money to farmers on long term is inevitable and without State aid no bank can undertake this business. For instance generally Provincial Bank advances loan to central banks repayable in four years; whereas in this district the failure of crops for the last four years put *raiya*s in great distress, and they are unable to repay the loan which they have borrowed. Thus without long-term loans they cannot be relieved of their distress which has become chronic on account of failure of continuous monsoon.

As they are defaulters in the bank, they are not even getting loans for cultivation purposes. But if provision would have been made for long-term loans, they would have been relieved to some extent. Therefore in my opinion land mortgage bank or some other facility for getting money on long term is indispensable.

8. There is a class of people who want to invest their surplus in lands. It is possible that if monsoons are continuously favourable for a few years, the price of land rises comparatively higher, but when monsoon fails its price falls down. Therefore rising of price of land does not depend upon investment, rather it depends upon monsoon. Whatever it may be, when it rises up, it goes beyond its yielding capacity. For instance, the average rate of price is Rs. 300 per bigha for *rabi* land, whereas the average yielding capacity cannot be more than 6 to 7 maunds per bigha. Thus it could fetch Rs. 21 to Rs. 24, whereas at the lowest rate of interest which the co-operative bank can give on deposit would be Rs. 18, the average rent would be Rs. 5. The total would be Rs. 23. The cultivation expense and labour is not accounted.

9. In places like Patna there are Traders' Bank and Peoples' Bank, likewise in some subdivisions co-operative movement financed them but as the rate of interest of this movement is proportionately higher they have recourse to local money-lender who generally charges lower rate of interest from traders than agriculturists, because they have not to realize audit and supervision expenses, etc. I think some facilities may be made for financing such industry and trades.

10. It appears that Usurious Loans Act was passed in the year 1918, though in one form or other it is in existence from 1839, still it has not brought any tangible effect upon money-lending. It is possible that in Judicial court some cases have different interpretations with the result that practically it remained inoperative.

Oral Evidence.

Chairman : Rai Sahib, you come from Fatwa?—Yes.

What positions have you occupied in regard to the co-operative movement?—I was Honorary Organizer of co-operative societies, Director of Central banks at Barh and Fatwa, and Secretary of the Central Bank at Fatwa. At present I am a Director of the Provincial Bank.

Is it your view that the importance of Atiths and Moghuls as agencies for supplying credit to agriculturists has diminished?—It has been reduced to some extent but has not disappeared. I have organized about 150 societies and from these villages they have gone away.

Professor Batheja : Are they just as much in evidence elsewhere?—They are still in the neighbouring villages.

Chairman : Do you ascribe this mainly to the organization of the societies and not to the general rise in intelligence?—Yes.

Do you think that the importance of the village money-lenders has grown at all as a result of the disappearance of these people?—Not much.

In your part of the world, what class of money-lenders do you get?—Agriculturists.

Are there not professional money-lenders such as *sahus* and *baniyas*?—Yes; but in the villages fellow-agriculturists advance money.

Is that a comparatively new development?—That has always been the case.

Mr. Hodge : Does the fellow-agriculturist lend out money at a lower rate of interest?—To some extent. The only difference between the fellow-agriculturist and the co-operative society is that his object is to take possession of the holding in the long run.

Chairman : In your memorandum you have said that there is a considerable amount of money lying idle with the Imperial Bank?—Yes, such as security on certain endowed properties, etc. I am not

very well informed on this point but so far as I understand there is some money lying idle with the Imperial Bank.

You propose to issue currency earmarked for financing agriculturists. What is the idea on the back of it?—My first proposal is to give long-term credit to agriculturists on the security of their land.

Would that be arranged by either a land mortgage bank or by the central bank taking over the functions of the land mortgage bank?—Yes.

Am I right in saying that your idea is that those fresh activities or extended activities could be financed by the utilisation of the Government balances?—Yes.

Professor Batheja : Are you referring to Hamilton's idea of creating more capital by inflating currency?—I am not aware of Sir Daniel Hamilton's report. My point is that it would, of course, relieve the agriculturist from this chronic indebtedness if Government could issue fresh notes, otherwise it is not possible that all the trouble of indebtedness would be solved.

Chairman : Do you think that the finance required for land mortgage banks could be raised in any other way, except by increasing the currency, such as by debentures?—I have submitted my views about debentures.

Do you think that it is better to inflate the currency or to try to raise money by debentures?—I think inflation of currency is better.

Professor Batheja : Are you aware of the objections to the inflation of currency?—I have met with these objections myself. If you give sufficient capital to the agriculturists, the yielding capacity will increase. Any rise in the price will be temporary.

Do you say that at present there is scope in this province for large scale improvements which require a very large amount of capital?—I am suggesting to make some improvement in this way that there is necessity for protection of agriculture. Of course, the part from which I come is subject to drought for the last four years. There is no provision for supply of water and this year it was subjected to flood. There is no arrangement for protecting their fields. Unless you make some arrangement for better agriculture there would be no better return. That is my experience of the last 20 years.

Mr. Hodge : Do you think there is still great need for irrigation schemes?—Yes.

Chairman : What kind of irrigation scheme, some canal system?—Yes. There are certain ways of improvement. I am speaking of places about 40 to 50 miles away from Patna.

In order to take the canal system off the Ganges you would have to put a dam across the Ganges to secure water?—Not necessarily. You have to make some arrangement so that we can take water.

Mr. Hodge : Would there be no dearth of security in the event of fresh currency being created and invested?—Here we have the system of permanent settlement and the security is very good.

Chairman : Referring to page 6 of your memorandum, do I understand you to mean that the temporary rise in price which inflation of currency might cause will pass away?—Yes.

You tell us something about marketing by petty traders. Do you think that that could be developed into a system of licensed godowns or warehouses?—I am not aware of the working of licensed warehouses. I have given my own experience of pooling.

Have you such godowns at Fatwa?—We have got at Fatwa several private godowns and at Barh, Khusrupur and Bakhtiarpur also.

Are these all run on the system that the agriculturist can get an advance of 75 per cent. of the value of his goods pending their sale?—Yes.

Mr. Hodge : Who determines the market value?—The *arhatdar*.

Chairman : Do you think that the existing system of *arhatdars* and *golas* can be developed into licensed warehouses such as has been explained to you this afternoon?—Certainly, if proper care be taken.

Do you think it would be to the advantage of the traders and ultimately of the agriculturists?—Yes.

Professor Batheja : What proper care do you suggest?—I mean authority to the bank or the licensee to dispose of grain at the moment it reaches the advanced value.

Do you suggest that the institution should be properly supervised and controlled by Government?—Yes.

Would you suggest any other agency in place of Government?—My point is that if Government sustain any loss they would bear it but any other agency will not.

Government's business will only be to supervise the work of the warehouses. The rest will be the bank's risk but not the Government's risk?—In that case the bank and not the Government will be the loser and the bank being experienced will look to its own interests.

Chairman : Do you think it necessary to provide that Government should guarantee the banks against any loss caused by the neglect or dishonesty of Government servants?—Yes.

Mr. Hodge : Can the central bank fulfil the office of an *arhatdar*?—Please do not mix that business with banking.

Professor Batheja : Will it not be an advantage the moment these goods are deposited in the co-operative godown to sell them also on commission?—That would be a difficult task for central banks to take up.

Chairman : Do I understand that in the case of the sale society for paddy which you had organized contrary to expectation the prices

remained high during harvest and did not rise higher still during the following six months or so?—That is the whole trouble. For the last four or five years continuously the condition has been the same. During the harvest the market is high and during the dull season the market falls down.

Do you think that the ordinary impression that the *raiya*s lose a very great deal of money by having to sell soon after the harvest is an exaggeration?—In a majority of cases it often happens.

From looking at the gazette prices—prices in big towns—the indication is that on the average there is a difference of about 12 per cent. between January and June prices of paddy?—Sometimes it goes up a little.

Would you say that the gazette prices do not show such a wide gap as you get in the smaller towns or in the villages?—That is not so.

Is it your experience that the ordinary *raiya*t has a pretty good idea of what the price of rice is on any particular day?—No, very rarely. Those who are living near to the market know the prices.

Is not the information passed on from village to village as people pass one another on the roads and paths?—No.

Mr. Hodge : Is not the ordinary *bazar* held every day in a group of villages?—Yes.

Chairman : Is it very difficult for the *raiya*t to find out what the price of paddy is in the vicinity?—The villages which are situated at distances from five to ten miles from their market, the *raiya*s thereof are not aware of the market price. Whenever the trader comes there, they ascertain what is the real price.

Do you think that the *beparis* are able to mislead seriously as to the price?—No.

Would it be any advantage at all for Government to undertake the distribution of information about prices?—It would be useful but will be very expensive.

Professor Batheja : Suppose a telegram is sent to the thana giving the price, will that serve the purpose?—Generally in every thana, there is a market and the dealers get every day information of the rate.

Is there any place below the thana where information might be posted?—They would be beneficial to the people but generally people will not go to see the rate in the thana.

Chairman : May I take it that you are not in favour of trying any further experiment of this kind in pools?—I have already stated my difficulties.

Do you think that if the sale society had been organized on a larger scale it would have been more successful or do you merely think that it would have the effect of involving larger losses?—It all depends upon the honesty and loyalty of the members as well as the workers.

Professor Batheja : Does it not depend on business capacity of the workers also?—Yes.

Mr. Hodge : Has the market not a tendency to stabilize itself after a period of years? It may not do in five, it may do in ten years.—Our recent experience shows otherwise.

Was it not because of your having insufficient capital to tide over the crisis, so to speak? Had you continued for another two years might not the market then be favourable?—I very much doubt.

Professor Batheja : Rai Sahib, you are a co-operator of great standing, do you know of any co-operative selling society in this province which has been successful?—No.

Have experiments been tried before besides your experiment in other parts of the province?—Yes, in Garhani in the Arrah district but it did not succeed.

You think that the success of sale societies depends upon the loyalty and business capacity of the members. Is this business capacity forthcoming amongst the honorary workers of the co-operative movement of this province?—I am afraid not.

Mr. Hodge : It has been suggested by the Registrar of Co-operative Societies that sale societies on a bigger scale would have greater likelihood of success?—I am afraid not.

Chairman : Have you any information about successful sale societies in Bengal—rice and jute sale societies?—There is one in Bengal, so far as I remember—Nowgong Society.

What is the cause of the success of this society?—That is generally a sale society for jute. There is some society in the Punjab for the sale of wheat.

Please refer to page 7 of your note. What do you mean precisely by provincial centres?—I mean that the *hundis* from Khusrupur, Hilsa, Islampur are discounted at Patna.

Professor Batheja : What *hundis* do you refer to?—The traders send their goods to Calcutta and get *hundis* which they get discounted at Patna.

Muddati or *darshani hundis*?—*Fatwa hundis* are *darshani*.

What is the form of that *hundi*?—I have enclosed copies.

Is it not merely a remittance *hundi*?—No, accommodation *hundi*.

What is the period of these *hundis*?—30, 60 or 90 days.

Which are the firms in Patna who do this sort of discounting business?—I think Badridas and some other firms.

What do these firms do when discounting the *hundis*?—Sometimes they pay some commission; sometimes they realise some commission. It all depends upon the market.

Chairman : You say that land not worth Rs. 20 per acre about 15 years back is hardly acquirable at Rs. 600 per acre. What is the cause of this phenomenal rise?—There are two reasons, of course, barring the special reasons of the last four years on account of the failure of crops. This co-operative movement is one of the elements for raising this price. The economic condition of the agriculturist has improved. There were no purchasers formerly. Now there are purchasers and no sellers. The other reason is the rise of prices during the last 15 years.

What return does a man expect to get if he pays Rs. 600 for an acre of land?—The average outturn, according to my standard, is 6 to 7 maunds per bigha. It is possible that one bigha may yield 20 maunds.

The trend of your evidence is that the return of money invested in land is exceedingly low now; lower than the rate which you can get from investment in co-operative banks as deposit and Government securities?—Yes.

Professor Batheja : Is it because people have got more savings in their hands and they cannot find any scope for investment and therefore they buy land?—That is not the idea.

Will you accept the statement that the proportion of buyer to seller is larger than before?—Yes. But a general statement like that would be in a way exaggeration.

Chairman : You say that in order to make a land mortgage bank a success you would have to get better information regarding the land offered for mortgage and for that purpose you would have to improve the record-of-rights including the recording of subsequent changes? Would not that amount to continuous maintenance of the record-of-rights?—Yes.

Are you aware that it was tried in Orissa and abandoned because it was very expensive?—I am not aware whether it was tried. To me it appears that it will give better information not only to the mortgagee or investor but to tenants as well.

Is there a demand among the tenants of your part of the world for a revision of the record-of-rights?—I have not ascertained it.

You suggest that merely a nominal fee should be charged for every entry of change. Does the landlord himself charge only a nominal fee when he changes his jamabandi?—I do not like to make any suggestion which will involve Government in additional expenses and on account of that additional expense further development may not be postponed. therefore I have suggested that a nominal fee should be charged to meet the additional expenses.

Mr. Hodge : The fact is that in this province there is no provision for long-term loans. Would you call a loan up to ten years a long-term loan?—To some extent.

Chairman : Is it not your experience that central co-operative banks are arranging for long-term credit to the members of the societies?—No.

Would you remove the lack of this facility by putting on the existing co-operative banks the work of granting long-term loans or would you organize a separate land mortgage bank to deal with the class of members that you get in your primary societies now?—I am suggesting that it would be much better to convert this provincial bank into agricultural land mortgage bank and then raise money by floating debentures or getting money after issuing fresh currency from Government. The members must get money from one agency, i.e., the primary society, either for long-term or for short-term loan. To allow members to borrow from two institutions would be more dangerous.

Would you give the function of supplying long-term credit to the existing central banks organized under the provincial bank and acting through the primary societies?—Yes.

Is there any class of agriculturist, however, to whom a land mortgage bank would be a boon, for example small zamindars?—Yes.

Do you think it would be a good thing to organize land mortgage banks for the small zamindars separately from the co-operative movement?—Yes, but through the Provincial Bank.

Would you recommend, if such an organization is created, that the Provincial Bank should act as an apex bank not only for the present banks but for the land mortgage banks also?—Yes.

Professor Batheja: If the same society gives long-term and short-term credit, would you try to get long-term deposits?—I am afraid we won't get long-term deposits there.

How will the society be able to perform these two functions?—The only way is to issue debentures or to issue fresh currency, but not by getting deposits on long-term.

Do you think it safe to go on on the assumption that because a central bank is able to get three years' deposits renewed for another three years or even for more periods of three years they can be treated as long-term deposits?—No.

Assuming that it is possible to start land mortgage banks in this province to meet the needs of the small zamindars, do you know of any particular area where an experiment could be made?—I think Patna would be a good centre for the experiment.

Do you think you would be in a position to give us, not necessarily now, an estimate of the amount of demand there is for that credit in the Sadr subdivision of the Patna district by small zamindars?—The small zamindars are mixed up with the agriculturists and they are already members of the co-operative societies.

Mr. Hodge: Would you confine the operation of land mortgage bank to the land-owner alone or include the more substantial tenants?—Land mortgage banks ought to be for all without any distinction.

Professor Batheja: You say that two-thirds of the agriculturists have joined the co-operative movement. Is this figure for Fatwa only

or is found in other parts of the province also?—That is my general impression. I exclude landless men and traders.

You say that many well-to-do agriculturists have been reduced to the class of labourers on account of heavy indebtedness and because of the tricks played by the money-lenders. Are these agriculturists inefficient people and deserve to be deprived of their land?—No, they have been deprived of the land on account of the tricks of the money-lenders.

Are they also efficient cultivators?—Yes.

Mr. Hodge : Have you any particular district in mind and are you speaking from actual observation?—Yes.

Chairman : Your impression is that a good deal of land is passing out of the hands of the real cultivators owing to their dealings with the *mahajans*?—Yes.

Have you met any such *mahajans*?—I have met many. There are good *mahajans* also. It would be unfair to take that the village *mahajans* as a rule are men who play tricks. Unfortunately a gentleman told me that even the Maharaja of Darbhanga being a money-lender cannot be praised as money-lender.

Professor Batheja : What percentage of the *mahajans* in your opinion play tricks, I mean resort to bad tricks?—Almost 95 per cent.

Chairman : You have suggested that the agriculturist should utilize his spare hours in spinning and weaving. Are the weavers in this part of the world a prosperous community?—Not so much.

Would it not require much training for anybody to take up weaving business who is not an expert?—If the agriculturists take up this work and utilize their leisure hours they may be independent of cloth as well. That is my personal experience.

Does not a weaver, in order to do hand weaving, have to buy his material?—Yes.

Is it not possible for an inexperienced weaver to produce a piece of cloth at the expense of a very great deal of time which is worth less than the raw material of which he has made it?—Twenty or 30 years before the villagers used to weave *motia* cloth. They used to spin cotton, hand it over to the weavers, pay something in cash say 3 or 4 pice per yard and they got their cloth woven.

Are you prepared to withdraw your advocacy of hand-weaving and say they should devote their leisure hours to spinning?—In every family at least one boy might learn this business and relieve the other members of this burden.

Professor Batheja : Is spinning a paying occupation in your part of the country?—Not paying but they meet their own requirements. If they be induced to undertake this they will be relieved of some additional burden.

Mr. Hodge : Can you think of any case in your district where people by doing this subsidiary industry of weaving have bettered their economic condition?—Yes.

Chairman : You say that the public at large do not follow the banking business as the publications are in English. You say that there should be a vernacular paper. Would such a paper have any sale?—Local papers may be induced to undertake this work.

You suggest that the system of credit cheque such as in England may be introduced in the banks. I am afraid I do not follow the phrase. Will you please explain?—The system in England is to issue credit cheques. A man deposits money in some bank and that bank issues a cheque to that man and the owner of that cheque is authorized to cash it anywhere in the province or in any bank.

I see. You mean “ Travellers’ cheques ”. Are there many people in Bihar who would want to do that?—Yes. I want to make that suggestion only to make the banking system popular.

Professor Batheja : Do you think that payment to Government servants by cheque will create hardship?—At present the arrangement is that the pay-bill of the staff is prepared and cashed by an officer who is authorized to do that and he distributes the money to all the employees. But if you issue cheques he would have to go to the bank personally to get the money.

Is it good from the public point of view that money should lie idle in the house?—How many employees have got surplus money?

Chairman : The suggestion is to introduce this system for those who are drawing Rs. 100 and more. Don't you think it would be possible for them to have current accounts with the bank? When he gets his pay it would be paid in there. He would pay his grocer by cheque too and induce the grocer to keep an account and so on. Don't you think it would be an advantage? It may not be possible for a junior clerk.—Those who are getting more than Rs. 100 have, of course, got some account in some local bank but not all. But if we suggest to make a rule that the clerks getting more than Rs. 100 should receive their pay through a cheque it would be very hard on them. It would be convenient if he is using cheques himself but it is a question whether his servants and grocers will accept the cheque from him or not.

Professor Batheja : Rai Sahib, you say that co-operative movement gets facility for popularizing operations and there would be no need for licensed *mahajans* or registered money-lenders. In how much time do you think this co-operative movement will cover the entire area of Bihar and Orissa?—If Government sanction more hands and if Government relax departmental control to some extent in organizing co-operative societies, I think in 10 to 12 years.

Are you aware that it is only one per cent. of the total population that has been brought into the net of the co-operative movement?—

Yes. But there are so many restrictions. When I left the bank there were many applications for registration of societies but these societies have not yet been registered.

Is it because the co-operative department thought that the extension was not going on right lines that permission was refused?—The reason is that they have got a very small number of officers to control.

Chairman : Had the co-operative department got any ground to considering that it was most dangerous two or three years ago to allow very much more expansion of the movement?—I do not think so.

Do you think that the rumour that the movement was developed on unsound lines was unfounded?—I do not think that the movement has developed on unsound lines. The reason of the drawbacks or failures, if any, is due to the want of certain facilities, the greater one being the want of long-term credit. Training in this province at least is very inefficient. Constant change of officers of the co-operative movement is more responsible for the drawback.

Do you think it would have been safe two years ago to expand very rapidly considering how badly trained the available officers were?—It will take time.

Professor Batheja : Would it not be better to have a few good societies than many good, bad and indifferent societies?—Not in my experience.

Is it a fact that some societies have not been organized on sound lines?—For that the responsibility lies on us as well as on the department because what is my impression is not generally the impression of the department.

Is it a fact that the *mahajan* is a most important agency for agricultural finance?—No.

Do you think that the co-operative society is more important?—My estimate is that we have tapped one-eleventh part of the villagers. Still I see that we are more important than money-lenders because these big money-lenders never go to the agriculturists. It is only the fellow-agriculturist who advances them money. So they have nothing to do with the agriculturist.

Chairman : The urban money-lender has very little influence on rural money-lending. The main burden of financing the agriculturists still lies on the shoulders of the village *mahajan* or the fellow-agriculturist.—To some extent.

For every rupee that the co-operative movement advances in any one year other agencies advance at least Rs. 10.—It may be in exceptional cases but that is not done.

Professor Batheja : Are there not many members of your co-operative society who having borrowed from the co-operative society still go and borrow from *mahajans*?—There may, of course, be some, but they are very few.

Is not *mahajani* system more elastic than the co-operative system?—Of course, money-lending is more elastic.

Do you think the village money-lender can be eliminated quickly?—It will take some time.

How much time?—If the co-operative movement is run on sound basis, it may take quarter of a century.

What shall we do as regards financing the business for that period?—Increase the number of our members.

Chairman : I understood you say that the collateral security system had been extended very much in recent years. With collateral security is there any real need to continue to have unlimited liability?—That is the additional safety.

Is it your impression that a good many people hold back from the co-operative movement because they dislike the idea of unlimited liability?—Possibly in some parts many men are apprehensive of unlimited liability. So far as my experience is in this unlimited liability has been enforced in very rare cases.



सत्यमेव जयते

Monday, November 25, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Mr. J. Z. HODGE.

Rai Bahadur BANSIDHAR DHAN-
DHANIA.

Rai Sahib MIHIR NATH RAY, Managing Director
and

Mr. V. M. THAKORE, B. Com., Secretary of the Bihar and Orissa
Provincial Co-operative Bank, Patna.

Replies to the Questionnaire (by Mr. V. M. Thakore).

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

Present system.—For expenses during cultivation, for capital and permanent improvements, or for other special needs, the chief sources from which the agriculturist obtains finance are either the village *mahajan*, merchant or Moghul, the local co-operative society, the landlord and fellow agriculturists.

The *mahajan* or Moghul may either be a money-lender by profession or a trader combining trade with finance. More often he is the latter. As is natural he is only concerned with the safety and the suitability of the return on his investments. The well-being of the agriculturist, the encouragement of savings and banking habit, the productive use of the borrowed capital are points which do not concern him. His chief concern is the credit-worthiness, and his idea of the suitability of a return varies in proportion to the needs of his prospective constituent.

The village *mahajan* continues to this day to be the chief agricultural financier due to various reasons, the chief amongst which are his local influence and his easy accessibility. He finances the agriculturist for all purposes. The nature of security and the period of each loan are matters which he adjusts in accordance with the needs of each individual case. The rate of interest on each advance varies in accordance with the need, the period, the security and the part of the Province in which it is made. The most usual rate of interest varies between 24 to 40 per cent. per annum but in actual practice due to the shrewdness of the *mahajan* and the innocence of

the agriculturist the actual return on the investment is considerably more. This additional return is either in the shape of services, presents in cash or kind, or is due to the system of keeping accounts by the *mahajan*. It is a general belief that once an agriculturist gets into the clutches of a *mahajan*, it is difficult for him to get out of it. It is possible that the ignorance and improvidence of the average illiterate Indian and the inability of his soil to yield a suitable return are the causes which are responsible, but the probable cause of his inability is the avariciousness of the *mahajan*.

The period for which a *mahajan* generally advances loans to the agriculturist has little relation to the purpose of the loan. Legal enactments with regard to debts generally provide the only limit to the period for which a loan is permitted to run by the *mahajan*. The security for each loan depends on the amount required. For loans of small amounts personal security is usually accepted but for large loans the security is a mortgage of property such as lands, houses, ornaments, etc.

Co-operative societies are the most important of beneficial agencies engaged in the finance of agriculture. At the end of the year 1928 there were nearly 8,000 agricultural societies with a membership of about 225,000 out of a total population of 34,000,000 in the Province. The number of members of primary societies is 7 per 1,000 of population. Although the number of co-operative societies is not large, their influence is always for the good of the agriculturist and they constitute a potent force in rural finance. The *mahajan* has been compelled by them to reduce his rate of interest. With the training the societies impart to the agriculturist the *mahajan* has been compelled to be a little fairer in his transactions. The direct and indirect, economic and moral, advantages of co-operative societies in villages are obvious. The societies make advances to agriculturists for current needs, for capital and permanent improvements, and for other special purposes, and they check habits of improvident and reckless expenditure. Co-operative societies are the only institutions which provide not only a means of educating the rural population to be better farmers and businessmen, but also provide sound banking facilities in the otherwise inaccessible rural areas of the Province. In an agricultural country like India with a poor and illiterate population co-operative credit appears to be the only suitable means of extending banking facilities in the country.

Co-operative societies usually charge 15 per cent. interest on advances to members. The period of each loan varies in accordance with its purpose and the security is usually personal unless the loan exceeds an amount of one hundred rupees when the security is a mortgage of lands. No distinction is maintained between long and short-term loans. Loans for capital expenditure, redemption of old debts and improvements in lands, etc., are generally for long periods varying between three to five years. The security in such cases is usually a mortgage of land. The loans advanced to agriculturists generally tend to be long dated due to uncertain seasons.

The landlord and fellow agriculturists play an important part in agricultural finance till a co-operative society is organised. The rate of interest charged by them is practically the same as the rate charged by the *mahajans*. They derive other benefits from their constituents in the shape of services or in kind.

Government very rarely finance the agriculturist for his current needs by the advance of *takavi* loans during times of scarcity. The rate of interest charged on advances by Government is usually 6 per cent. per annum. With the expansion of the co-operative movement the part played by Government in agricultural finance has become of still less importance.

The advances made by the Imperial Bank and the other joint stock banks direct to agriculturists for agricultural needs in the Province are negligible. The Imperial Bank has however granted two cash credits of Rs. 7 lakhs and an overdraft against Government securities of Rs. 2,80,000 to the Bihar and Orissa Provincial Co-operative Bank. These cash credits and overdraft serve as a fluid resource to be utilised in case of need. The central co-operative banks utilise the local branches of the Imperial Bank and some joint stock banks for the deposit of surplus funds in current accounts except at two centres, where the branches of joint stock banks have granted cash credits to the local central banks. The accommodation granted by the Imperial Bank to the Provincial Bank is against the promissory notes of its guarantee shareholders and of its affiliated central banks, as well as Government securities at and below bank rate. In the Province there are only fifteen centres which possess a branch, either of the Imperial Bank or of a joint stock bank or of both.

The total amount of capital required for the various purposes of agricultural finance, in the absence of reliable data, cannot be accurately estimated. A rough idea of the requirements based on several assumptions can however be given. The population of the Province in accordance with the last census report is 34,000,000. Assuming that each family consists of five members there are 6,800,000 families and as 65 per cent. of these are cultivators there are 4,500,000 families of cultivators. The total membership of co-operative societies is 225,000 and their total working capital per member is therefore about Rs. 100. Assuming that each member of a society represents one family and the working capital of Rs. 100 is sufficient to satisfy all his needs the remaining 4,275,000 families of cultivators will each require a capital of Rs. 100. The total capital required will therefore be Rs. 45 crores including the amount of Rs. 2,25,00,000 which is already in the co-operative movement. The factors which affect the accuracy of the above estimate are, whether co-operative societies derive their membership from the class of cultivators considered to be of average means in the village and, if so, what is the amount of the outside debt of each cultivator. As no data is available for a proper consideration of the above subjects the estimate given above cannot be considered reliable.

Defects.—The multiplication of interests engaged is the main defect of the present system. Competition between them has led to various abuses, the chief amongst which is facile credit. Facile credit has been the cause of ruin of many an ignorant agriculturist who is thereby tempted to be improvident. Co-operative finance is not free from blemish. It is generally not sufficient for all purposes and is very rarely prompt. Finance to be fruitful must be adequate and prompt.

Remedies.—Finance through co-operative societies in spite of its defects is the only suitable remedy in the present condition of the illiterate agriculturist. A mere multiplication in the number of societies is not a suitable cure for the disease but they need to be made more efficient. By a systematic training of the workers and by the introduction of the system of a closer yet friendly supervision and guidance, this can be achieved. In the Province local supervision is provided by the financing institutions. The Royal Commission on Agriculture recommend that the supervising agency should be independent of the financing institution, but in the Province supervision by central banks is found by experience to be quite suitable to local conditions. With a view to make this supervision more close and efficient the present Registrar of Co-operative Societies has recently introduced a system of circle officers in central banks. For the training of the office bearers of primary societies, classes are being held under the supervision of central banks and with a view to help the weak central banks in this work the Provincial Bank sets apart a sum of Rs. 5,000 from its annual profits. These efforts are in the right direction but need momentum. The field is very vast and co-operative organisations are comparatively weak. Under the circumstances it will be unwise to check the growth of other indigenous institutions engaged in the work of financing the agriculturist, but it is necessary to regulate the present system. With this object in view the licensing and registration of money-lenders and regulating the rate of interest to be charged by them on advances are essential.

In the Province there is no co-ordination either between Government and societies, between the societies and the *mahajans*, or between the *mahajans* themselves. The practice of borrowing from one to pay the other is fairly common in the village with the result that the agriculturist is encouraged to be extravagant till all his assets are consumed. As recommended by the MacLagan Committee on co-operation, *takavi* advances as well as remission of land revenue, etc., to members of societies should be made through co-operative societies by Government. Co-ordination between the various other financing agencies is impracticable and may prove injurious to the interests of the agriculturist, if successful.

Marketing of crops.—Bihar and Orissa in spite of its rich mineral resources and its industrial potentialities is essentially an agricultural province. The area of the Province is over 111,000 square miles with a population of 34,000,000. The average density of population for the

Province is 340 per square mile. In the area of over 111,000 square miles there are only six cities with a population of over 50,000 inhabitants. The people living in cities represent only 3.7 per cent of the total population. There is no appreciable increase in the urban population during the last generation and out of every 1,000 inhabitants 963 live in villages. For every 1,000 inhabitants 814 inhabitants are directly dependent on agriculture for a living and 652 are ordinary cultivators.

The principal crops of the Province are rice, maize, gram, barley, wheat, sugarcane, rape and mustard seed, linseed, tobacco, *khesar* and lentils. The above crops are grown in a more or less degree in all parts of the Province. The marketing of the above crops is usually done by the *mahajan* or local traders on their own account, or as agents of bigger merchants in cities and of important export houses.

For pools to be successful the quality of the crops must be uniform or grading must be carefully done, besides there must be a sufficiently large number of suitable godowns and storing facilities at convenient centres. The quality of the same kind of crop generally varies much although grown in the same village. For grading the crop the local traders cannot generally be relied upon and the storing facilities in existence at the villages are generally unsatisfactory.

Until Government builds suitable godowns and provides grading experts, pools cannot prevent the exploitation of the agriculturists, and succeed only if they are organised on a co-operative basis. As has been said before co-operative finance is neither adequate nor prompt. The reason why it is inadequate is that the societies have no means of exactly gauging the requirements of their members, and it is not prompt because the societies cannot afford a permanent trained staff to look after their administration. If co-operative sale is organised as a part of the existing credit societies, it will help in perfecting the existing co-operative credit societies, enable the latter to correctly gauge and control the credit of each member, to recover their dues promptly and enable them to employ a trained officer from their additional income on sale. Co-operative sale societies started independently of co-operative credit societies have not been very successful so far due to the fact that they have no control over their members. With a separate co-operative sale society a satisfactory co-ordination between finance and marketing of the produce of members cannot be achieved.

As there are too many financiers for the agriculturist so there are too many intermediaries for the marketing of his produce when ready. If the processes through which the farm produce passes before it reaches the place from which it is sold to the consumer are taken into consideration, the number of intermediaries is multiplied. As far as possible the preliminary processes for marketing the farm produce should be undertaken by the agriculturist's own organisation on his behalf. Removal of as many middlemen as possible should be the aim to secure to the producer as well as to the consumer the maximum benefit. A co-operative society is the agriculturist's own

organisation and a proper development of the system of agricultural marketing is therefore synonymous with the development of sale organisations on co-operative basis. With a view to enable the societies to obtain the benefit of wholesale rates, and to be in constant touch with the central markets, they will have to be federated into sale unions organised at suitable centres, which in their turn will be federated into divisional wholesale organisations, for the sale of the produce, not only to exporting firms but also through co-operative stores to local consumers. There are obviously many difficulties in the way of developing and perfecting co-operative organisations for sale and purchase, and these can best be solved by those interested in the co-operative movement. Organisation of the marketing of agricultural produce on co-operative lines will do away with the need of several middlemen, who, by their activities and profits, attract and concentrate, the surplus capital of the country, in its few cities to the disadvantage of the rural population. Development of marketing on co-operative lines alone will help to retain a part of the surplus capital in rural areas by distributing the profits of the middlemen among the agriculturists.

Co-operative banks play no important part at present in marketing the produce of members of societies in the Province. The joint stock banks and the Imperial Bank have branches at very few centres in the Province and occasionally make advances against the security of agricultural produce to big merchants. Such advances do not usually exceed 75 per cent. of the market price of the produce when it is put in the godowns of the banks and the goods are released in part or whole when payment is received. Owing to the destructibility of the produce, the period of advances against them is generally short. As a general rule joint stock banks and the Imperial Bank do not much interest themselves in making advances to merchants in mufussal towns, but confine their activities to advances against Government and Trust securities, or against the shares of approved joint stock companies, in big centres of commerce. Marketing of agricultural produce is mainly done by the city merchants with the help of petty traders who generally act as their agents in the villages.

Internal remittances.—The existing facilities for internal remittances are as follows :—

1. Postal Money Order and Insurance.
2. Cash Order, Remittance Transfer Receipt, Supply Bill and Telegraphic Transfer on Government treasuries.
3. Cheque, Demand Draft and Credit Advice on banks and their branches.
4. *Hundi*.

Postal Money Orders are the only means of remitting small amounts in the country. Due to the high commission charges on money-orders, they are not generally utilised for the remittance of large amounts. If no other facility for remittance is available locally

the usual method of remitting large amounts is by registered insured post in currency notes. The usual procedure of sending money by insured post is to cut the currency notes in halves and send the first halves fully or partly insured, and on receipt of an acknowledgment to send the second halves also fully or partly insured. Where small amounts are concerned full currency notes are enclosed in packets and sent to their destination by post fully insured. The practice of remitting money in half currency notes is so universal that hardly more than fifty per cent. of currency notes of big denominations in circulation remain whole, and some of the cut notes have usually done service more than once.

Remittances by Cash Orders and Remittance Transfer Receipts on sub-treasuries and treasuries are permitted by Government free of all charges to co-operative banks and societies. Since the establishment of the Imperial Bank, Remittance Transfer Receipts on treasuries and Demand Drafts on its own branches are issued by it at par on Government account to co-operative banks and societies. The minimum amount that can be remitted by Remittance Transfer Receipts is Rs. 150.

Supply Bills are issued by one Government treasury on another on previous arrangement on a charge which varies in accordance with the amount remitted. The minimum amount that can be remitted by a Supply Bill is Rs. 5,000. A charge of two annas per cent. is made for the issue of a Supply Bill between Rs. 5,000 and Rs. 10,000 and a charge of one anna per cent. is made for a bill in excess of Rs. 10,000. Telegraphic Transfers are issued between treasuries in much the same way as Supply Bills on payment of the usual commission and the cost of the telegram. These facilities are generally utilised by big merchants.

The *hundi* is a very important means of internal remittance. It is very widely known and as widely utilised, for commercial purposes in internal remittances. The *hundis* in common use are either payable on presentation called *darshani* or payable on a certain subsequent date, or after the lapse of a certain time, called *muddati*. The *hundis* are either payable to bearer or to the payee. In the former case they are known as *Shahjog hundis* and in the latter case they are known as *Dhani jog hundis*. *Shah* in vernacular means a respectable gentleman, therefore *hundis* payable to bearer also throw a certain amount of responsibility on the drawee. It is therefore the custom to pay the amounts of all *hundis* at the offices of respectable local bankers or merchants. When a *hundi* arrives at its destination, the custom is to present it to the drawee who notes the amount and the address of the party presenting it, and then the latter pays the amount at the office of the banker by whom it was presented, in accordance with local custom. Custom with regard to payment of *hundis* differs in different centres. The local usages regarding *hundis* have the force of law.

Defects.—As has been pointed out before there are only fifteen centres in the Province which enjoy the privilege of possessing one or more branches of either a joint stock bank or the Imperial Bank of India. Wherever there is a branch of either a joint stock bank or the Imperial Bank of India facilities for internal remittances for commercial purposes are satisfactory. At other places the facilities are not satisfactory.

Remedies.—The solution is an increase in the number of branches of commercial banks. There are however several difficulties in the way of developing branch banking. The comparatively high cost of management and the limited business available are two of the chief obstacles to a more extensive development of branch banking. As has been said before there are only six centres in the Province each with a population of more than 50,000 inhabitants. The city dwellers in the Province constitute only 3.7 per cent. of the total population and the remainder live in villages and small towns where no branch of a commercial bank can be profitably organised.

A suggestion is often made that this difficulty could be obviated by encouraging the organisation of several small commercial banks. If several independent banks are organised competition and rivalry between them is inevitable. At present there is no machinery whereby Government can control the operations of several small private banks carrying on business in the mufassal, and without such control such banks are likely to degenerate into soulless *mahajans*.

Peoples' banks, if started on proper and right co-operative lines, appear to be a more suitable form of banking facility which can safely be provided in all centres of petty trade and industry. This organisation is more suitable because a machinery exists whereby the activities of peoples' co-operative banks can be controlled by Government. Their financial needs can be met from the existing co-operative banks and they can be economically organised with small resources, without any fear of their ever degenerating into soulless *mahajans*, as the borrowers themselves in such institutions will have a control over their administration. Besides, as the people themselves will be the organisers, they will naturally have greater sympathy and faith in such institutions than they can ever have in institutions in which they have no voice, and over the administration of which they have no control. If peoples' co-operative banks are organised on right lines they will provide an easy and a cheap means of internal remittance by drafts and cheques.

There are only fifteen centres possessing a branch either of the Imperial Bank or of a joint stock bank but there are sixty-seven centres at present possessing a central co-operative bank. The co-operative banks do not provide any facilities for remittances to commerce due to the restrictions imposed on them by Government in connection with remittances for commercial purposes. As must be obvious, remittances through banks, whether commercial or co-operative, involve some risk and much labour, and therefore they usually charge small commission for this service. Co-operative banks are generally far removed from

all centres of extensive business and have to entirely rely on the local Government treasuries for remittances. As will be seen from the following extract from letter no. 1244-Agr., dated the 29th September 1924, from the Secretary to the Government of India in the Department of Education to the Provincial Governments, the co-operative banks are not permitted to make use of Remittance Transfer Receipts for the purchase and sale of remittances :—

“ Government desire to make it clear that the buying and selling of remittances is not consistent with the principles of co-operative banks and that this concession of free remittance of funds by Remittance Transfer Receipts is not made to co-operative societies to enable them to carry on a commission business. I am therefore to suggest that auditors of co-operative societies and banks should be instructed to check any such transaction which come to their notice during their inspection and report them to the Registrar. If any local Government considers it necessary to impose a maximum limit on the daily issue of Remittance Transfer Receipts at par by co-operative societies with a view to check any tendency to abuse the privilege, the Government of India will have no objection to the imposition of such local restriction as is considered necessary but they regret that they are unable to agree to the issue of supply bills for remittances exceeding Rs. 10,000 a day at half the usual rate.”

The above instructions were issued with a view to prevent the co-operative banks from competing, on equal terms, with the Imperial Bank of India, in a section of banking, which the latter has chosen to consider its exclusive privilege. The object of the letter could have been achieved if the restrictions imposed were confined to co-operative banks situated in centres where a branch of the Imperial Bank of India was in existence. By extending its application to all provinces and to all co-operative banks which are situated in small towns in the mufassal, and where these are the only banks in existence, or which can be profitably organised, a serious check has been put on the development of remittance facilities and banking habits in rural areas of the country. It will not be out of place to mention here that the co-operative banks which made this letter from Government necessary are not situated in this Province, and the restriction has therefore been unjustly placed on this Province for the fault of another.

The facility of free remittance of funds by Remittance Transfer Receipts on Government treasuries allowed to co-operative societies indicates the anxiety of Government to develop facilities for internal remittances on sound lines. The advantage of this facility is largely nullified due to the loss of interest co-operative banks have to suffer on their balances in transit as there is a delay of about a week in such transfers. With a view to prevent this loss to co-operative banks as far as possible, a proposal was made by the Provincial Bank to Government last year to extend the privilege of a free remittance of funds by Supply Bills and Telegraphic Transfers to co-operative banks. When Government have already conferred the privilege of free

Remittance Transfer Receipts to co-operative banks the concession asked for in the proposal for the issue at par of Supply Bills and Telegraphic Transfers is not excessive, but for reasons not known the request has been recently refused. In section 163 of the Resource Manual of Government of India the charge made for the issue of Supply Bills and Telegraphic Transfers is given as below :—

For amounts of Rs. 10,000 and above one anna per cent.

For amounts of less than Rs. 10,000 two annas per cent.

The telegram charges may be Rs. 3 or Rs. 2 according as the person desires to transfer, by an express or an ordinary telegram.

Remittance Transfer Receipts and Supply Bills are not a prompt method of remittance.

Co-operative banking in an agricultural country like India must play an increasingly important part and the question for a long time to come shall have to be what further privileges and concessions can usefully be given to co-operative banks and societies in the interests of banking development. It is in the interests of banking development in the country to concede the additional privilege of the issue at par of Supply Bills and currency transfers to co-operative banks at centres where they have an office, whether there is a treasury or a sub-treasury. The present method of issuing Cash Orders at par in lieu of Remittance Transfer Receipts from treasuries on sub-treasuries increases the delay in the transfer of funds from one co-operative bank to another. It is a serious matter for consideration whether Remittance Transfer Receipts cannot be issued direct between sub-treasuries or between a sub-treasury under one treasury and another treasury. Another matter for consideration is the extent to which the facility for the encashment at sub-treasuries and local branches of the Imperial Bank of India of cheques drawn by central banks against the Provincial Bank can be given if a satisfactory undertaking is given by the latter bank to honour such cheques when presented at its office, and if suitable security is lodged for the purpose. The extension of the above facility to co-operative banks means neither any risk nor any loss of interest to Government, while it will be of great value to co-operative banks. The burden of providing banking facilities in small mufassal towns due to the peculiar condition of the country is heavy on co-operative banks and when strong institutions like the Imperial Bank of India enjoy the privilege of having the free use of large Government balances, it is not too much to ask for the above facility for the transfer of funds through Government treasuries in favour of co-operative banks, specially when these facilities do not entail any risk or cost to Government.

Exchange business is a perfectly legitimate business for co-operative banks and societies to undertake. To deny them this liberty is to take a very narrow view of the functions of co-operative banks. Freedom for co-operative banks to do exchange business will mean

less seasonal stringency in the money market, and will mean a considerable saving in the expenses and risk involved in the transfer of funds from mufassal sub-treasuries and treasuries to the branches of the Imperial Bank of India and *vice versa*. As is well known the annual seasonal stringency in the money market commences with the movement of crops at the end of the monsoon. Generally speaking the stringency synchronises with the collection of land revenue by Government. The land revenue so collected accumulates in Government treasuries without any outlet to make it available for the finance of local trade. The agriculturist at the same time markets his produce, and the merchants require money in the mufassal towns for its purchase. At this time of the year the local Government treasuries possess funds but cannot release them for the use of local merchants. At considerable risk and cost to Government these funds have sometimes to be sent to central treasuries, whence they pass on to the Imperial Bank. The local merchant, on the other hand, obtains funds from bigger merchants in cities. The flow of Government funds is from the mufassal to cities while for commerce the flow is from cities to the mufassal at the same time in the busy season. The risk and cost involved both for Government and merchants for sending and obtaining funds from big commercial centres can be obviated by permitting co-operative banks to discount local *hundis* of approved merchants. The co-operative banks can serve as a link between the merchants who need funds, and Government treasuries which at this time have funds to remit to central treasuries. As is well known the feeling of stringency in the money market is generated by the general scramble for funds in big commercial cities, and its origin can easily be traced to the insistent demand for funds from merchants in the mufassal. The stringency is more psychological than real. If therefore a means can be devised to release the currency locked up in Government treasuries, for the use of local merchants through the activities of co-operative banks, the feeling of stringency is sure to be less acute with the passage of time.

The busy season in India ends with the commencement of the monsoon when the funds remitted to mufassal towns return back to big commercial cities. This period synchronises with the time when the members of societies require funds for their agricultural operations, and the co-operative banks draw funds from the Provincial Bank. If the co-operative banks are permitted to do exchange business, they can sell their drafts or *hundis* against their accounts with the Provincial Bank to local merchants, and thus obtain promptly the required funds locally.

The documents generally employed for raising money during the process of marketing in the Province are Railway Receipts. Money on these documents is raised by sending them through commercial banks with Bills of Exchange, and in cases where small amounts are concerned, by Value Payable Post through the post offices. If Railway Receipts can under proper safeguards be given a negotiable character, it will remove one of the chief obstacles in the way of merchants desiring to pass the value of goods by endorsement.

Warehouses.—In the proper organisation of agricultural marketing, warehousing facilities are of great importance. Licensed warehouses, if opened and operated on different railways, will prove of great benefit to merchants. Licensed warehouses may facilitate the merchants but not the agriculturists because the quantity individually produced by the latter is too small to enable him to establish direct relations with big merchants in cities. To believers in, and advocates of, co-operative marketing, there does not appear to be any good in introducing a system of licensed warehouses. Godowns for storing agricultural produce however require to be erected in convenient centres and managed under the supervision and control of co-operative banks. The local Government have already made a few advances for seed godowns to some central banks and if this facility is extended it will go a long way in furthering the growth of sale societies in rural areas. Without such assistance from Government, sale societies cannot succeed as proper storing facilities are not available.

Mortgage banks.—There is no legal impediment to mortgage of land except in some backward tracts of the Province. The chief difficulty however is with regard to the recognition of transfers by landlords and the ascertainment of encumbrances and title.

There is no land mortgage bank in the Province at present and no attempt has so far been made to organise one. Nor any extensive schemes of land improvement and debt redemption have been undertaken so far, for want of long-term capital in the movement. In the very few cases where long-term loans are granted to members of societies the funds provided are out of the present limited resources of the co-operative banks.

The establishment of land mortgage banks is a question of vital importance to co-operative societies as the security for advances of both these institutions is the land of their members. In theory although advances to members are made on personal security by co-operative societies, in this Province mortgages are generally taken as collateral security for large loans. There are certainly difficulties in realising such security, but with the organisation of mortgage banks even this security will diminish. As has been mentioned below the primary duty of land mortgage banks will be to make advances to members for long periods for the redemption of their debts, or for permanent improvements in their lands, against the security of their lands. As will be noticed, no advances will be made by the mortgage banks to their members for their current needs. To satisfy his current requirements as well as his long-term requirements, a member shall have to join a co-operative society as well as a mortgage bank. A mortgage bank will mortgage his land before any advance is made to him. In the circumstances it would be difficult for the co-operative society to make any advance to the member for his current needs, when the whole of his land is mortgaged with the mortgage bank as security for advances. The organisation of the land mortgage banks will, it is clear, greatly undermine the present co-operative system of rural credit.

The Conference of Registrars held at Bombay in the year 1926 carefully examined the question of land mortgage banks and suggested that they should be organised on the following lines :—

1. Mortgage banks on co-operative principles are desirable and should be started.
2. The principal objects of such banks shall be redemption of land and houses, the improvement of lands and methods of cultivation, and erection of houses for agriculturist, the liquidation of old debts and the purchase of land in special cases.
3. The area of operation should be the smallest unit consistent with competent management.
4. A reasonable total of share money should be raised by each bank in order to re-assure the investing public.
5. Debentures should be issued by a central financing body in each province rather than by the several mortgage banks.
6. A guarantee of interest on the debentures by Government is essential. Subscription by Government to the debentures is also desirable. The Imperial Bank should be asked to assist in the floating of debentures and should be invited to make advances against mortgages endorsed in its favour.
7. Expert valuers for a full valuation of the mortgaged property should be employed by the banks. Government in the initial stages should make a contribution towards the cost of valuation. In return of this assistance, Government should be entitled to be represented either on the board of directors or on the board of trustees of the bank.

The Royal Commission on Agriculture recommended in their report last year that the policy laid down at the Registrars' Conference should be adopted and retained till practical experience indicates the need for a change. The experience gained in such provinces as have mortgage banks so far has not shown the need of any alteration in this scheme.

The rate at which money be raised for land mortgage banks will depend on the rate allowed by Government on loans issued by them. Without Government guarantee, long-term capital cannot be raised in a sufficiently large quantity at a favourable rate. With Government guarantee and help debentures of mortgage banks can, it is hoped, be successfully floated at a slightly higher rate than that allowed on Government loans. A margin of 4 per cent. between the borrowing and the lending rates will in practice be found to be sufficient for all needs if the only intermediary between the Provincial Mortgage Bank and the borrowing members is the primary land mortgage association.

As has been mentioned before, land mortgage banks, if organised on an extensive scale; will undermine the present organisation of credit on co-operative basis in rural areas. The time and trouble taken in organising and perfecting the present institutions will therefore be wasted.

and the organisation of land mortgage banks will have to be undertaken afresh. During recent years a system of obtaining mortgages as collateral security against advances to members has been introduced in the Province. It now remains to be decided whether it will not be advantageous to gradually replace short-term deposits in co-operative banks by long-term deposits, issue debentures from the Provincial Co-operative Bank, introduce a system of mortgage for all loans in primary societies, and convert the existing co-operative credit organisation into one of mortgage credit.

Indebtedness.—An accurate estimate of the indebtedness of agriculturists is not possible unless intensive studies are made on lines suggested by the Indian Economic Inquiry Committee of 1925. A few studies of scattered villages have been carried out by the Chanakya Society of the Patna College and occasional inquiries are also made by officers of the Department and some co-operative banks, but these studies are neither systematic nor thorough. These studies are generally too detached and fragmentary to permit of any generalisation regarding the indebtedness of the agricultural classes. The *haisiyat* registers of co-operative societies provide a column for mentioning the indebtedness of members. As these statements are generally prepared from the statements of members themselves, they are fairly accurate. If this information could be gathered and the average indebtedness of each member be taken as the average indebtedness of each agriculturist of the area served by a central bank, a fairly accurate estimate of the total indebtedness of agriculturists of the Province could be gathered. For a detailed estimate Government will have to carry out intensive surveys as recommended by the Economic Committee.

Subsidiary industries.—The chief subsidiary industries allied to agriculture are rice-milling, *gur*-making, rope-twisting, dairy-farming and cleaning of lentil. These industries are carried on usually throughout the year by a majority of the agriculturists.

The importance of small subsidiary industries to agriculture cannot be exaggerated, for it is only when the agriculturist does not stop at farming, but proceeds to prepare his produce in the form as near as possible to that wanted by the consumer, that he can hope to get a better return for his produce, and also to supplement his limited income. Supplementary industries are many and various, and local circumstances alone can decide which of these will best suit the agriculturist of that particular area.

The best method of securing capital for such enterprises would be the co-operative societies. The existing fabric of co-operative credit is unsuitable for the purpose but it would not be difficult to organise suitable institutions under the Co-operative Societies Act. For the finance of supplementary industries no other organisation is suitable under the existing state of things.

Relations between co-operative and other banks.—Generally speaking the relations between co-operative and other banks are not very close at present.

The Provincial Co-operative Bank which serves as a link between the central banks and the outside money market has close relations with the Imperial Bank of India. All the Government and Trust Securities belonging to the Provincial Co-operative Bank are placed with the Imperial Bank of India in safe custody and the latter bank has granted the following accommodation to the Provincial Bank :—

- (a) A cash credit of Rs. 4 lakhs at $\frac{1}{2}$ per cent. below bank rate against four promissory notes of Rs. 1 lakh each endorsed by the four guarantee shareholders of the Provincial Bank.
- (b) A cash credit of Rs. 3 lakhs at bank rate against promissory notes of Rs. 4 lakhs, executed by central banks, in favour of the Provincial Bank, and approved by the Registrar of Co-operative Societies.
- (c) An overdraft of Rs. 2,80,000 at bank rate against Government securities of Rs. 3 lakhs belonging to the Provincial Bank and lodged with the Imperial Bank.

The Provincial Bank enjoys the privilege of the first cash credit of Rs. 4 lakhs since its inception in the year 1914 at $\frac{1}{2}$ per cent. below bank rate, but during the current month the Imperial Bank of India has notified the Provincial Bank that the privilege will be withdrawn and interest at bank rate will be charged on the account from the 1st November 1929, as the various reasons which actuated the concession, in the opinion of the Imperial Bank, no longer exist.

In addition to the above cash credits, the Imperial Bank gives all facilities for the transfer of funds at par if remittances are between co-operative banks on Government account, and on a payment of commission if they are on account of constituents on private account. The Provincial Bank deposits a portion of its seasonal surpluses with the joint stock banks in Patna or in Calcutta wherever their terms are favourable. One of the joint stock banks in Patna has a current account with the Provincial Bank. Besides the Provincial Bank helps the Imperial Bank and joint stock banks to collect their mufassal bills free of cost through its affiliated central banks. Many of the indigenous bankers in Patna are depositors of the Provincial Bank. Relations between the provincial banks of different provinces are fairly close due to the establishment of an Association of Provincial Banks.

The central banks do not apply, and are not granted, cash credits by the Imperial Bank. Wherever the Imperial Bank has a branch, the central banks have current accounts with it, and in general, use the Imperial Bank as a remittance and deposit bank. The central banks generally have current accounts with the local branches of joint stock banks but in two cases at Ranchi and Giridih, they enjoy cash credits of Rs. 10,000 and Rs. 1,000 respectively from the local joint stock bank. Many of the indigenous bankers at places where central banks have offices, have deposits with such banks, and at a few places they have joined the boards of central banks. In some places the indigenous bankers act as their treasurers, and receive and disburse money on behalf of the central banks.

Short and long-term capital.—As far as short-term capital is concerned no serious difficulty has so far been experienced in raising the required amount. The primary societies are financed fairly adequately by the central banks and the latter command adequate resources.

The chief defect of the present system of short-term finance on co-operative lines is its lack of promptness. Societies experience some difficulty in obtaining finance in time. The delay generally occurs due to causes connected with the preparation of loan applications of societies, sanction of such applications by the boards of central banks, or in advances after sanction. This delay is generally due to the incapacity of members of societies to apply for loans in time, or due to their insufficient or inefficient staff. This delay can be avoided if the members were better trained in working their societies than they are at present.

Long-term capital.—The problem of long-term capital required for the movement has not yet received the serious attention it deserves. There has been a general demand for long-term loans for debt redemption or improvements in lands which has not been met, as the required long-term resources are not available in the movement. It is the practice of co-operative banks in the Province to allow one per cent. higher rate on long-term deposits of five years or more but the period of deposits generally does not exceed five years in any bank. Long-term finance therefore remains an unsolved problem at present.

With a view to enable the Provincial Bank to meet the long-term requirements of central banks and societies, a proposal was made last year to the Registrar, Co-operative Societies, to permit the bank to float debentures of Rs. 20 lakhs and approach the local Government to guarantee payment of interest on such debentures, in order to ensure their successful floatation at a reasonable rate of interest. The matter is still under the consideration of the Registrar of Co-operative Societies. Long-term loans to agriculturists, to be successful, must be cheap. The method of raising long-term deposits by offering higher rates on them is therefore not correct. Long-term capital can be successfully raised at a sufficiently low rate of interest only on Government guarantee.

If for any reason the proposal for the issue of debentures is not approved, a suitable alternative can be provided in the shape of loans at a low rate of interest from Government to the Provincial Bank, under the Land Improvement Loans Act, as is being done by the Bombay Government. The practice there is for Government to place an allotment of about Rs. 3 lakhs at the disposal of the Registrar of Co-operative Societies. He passes on that money to the Provincial Bank in current account and the funds out of that allotment are disbursed by the Registrar jointly with the Board of Directors of the Provincial Bank.

The period of repayment from the Provincial Bank to Government is the same as between the members and their societies with an allowance of two to three years. The maximum period of such loans is 20 years and the minimum is 5 years.

Before the introduction of co-operative societies Government used to make *takavi* advances to agriculturists. Government have not to make such advances now and the money so saved could with greater safety be advanced to the Provincial Bank on its credit and security for the purpose of making long-term advances to societies.

Extra capital required.—In the absence of an estimate of the total indebtedness of members of societies and their requirements for land improvements, no estimate of the extra capital required can be given.

Competition with other banks.—Generally speaking, in the matter of advances and other business, there is no competition between co-operative and joint stock banks, because the nature of business done by both is quite different. The co-operative banks do not do any exchange business and lend no money except to co-operative societies. In the matter of deposits there is a slight competition between the co-operative banks and small joint stock banks.

Concessions required.—As has been said before the future of banking in an agricultural country like India is indissolubly bound up with co-operative banking. There are several defects in the existing system of co-operative credit, but they are due mainly to the fact of a change in the old world rural economy of a co-relation between credit and production, and the want of diffused primary education in rural areas. A co-relation of the functions of rural credit, supply and sale revival of secondary occupations, improvements of lands, introduction of modern methods of agriculture, better and more widely diffused primary education, social reform, the provision of machinery for tapping the small savings of the agriculturists, are some of the functions which can safely be entrusted only to co-operative organisations. The problem confronting the extension of banking facilities in rural areas to agriculturists and petty traders and artisans is vast, and consequently the duties of co-operative organisations are so heavy that it would be difficult for them to discharge all those functions satisfactorily without Government support.

Most of the directions in which Government help to the movement is necessary have been referred to in replies to previous questions. In the forefront of this programme are Government guarantee of interest on 20 years' debentures to be issued by the Provincial Bank, the subscription of such debentures in part by Government to instil confidence in the investing public, and the inclusion of these debentures in the list of trustee securities. Next in importance is the provision of a suitable allotment annually by Government under the Land Improvement Loans Act for *takavi* advances to members of societies through the Provincial Bank. These concessions are necessary for the provision of long-term capital, of which the movement is greatly in need at present.

With a view to encourage banking habit in the people and to facilitate payments by book adjustments as far as possible, Government and public bodies should be permitted to accept payments by cheques on co-operative banks. The co-operative banks should be permitted to

do exchange business on approved lines and the existing facility of free remittance of funds by Remittance Transfer Receipts should be extended to the issue of Supply Bills and Telegraphic Transfers at par to co-operative banks. Arrangements should be made for the issue of Remittance Transfer Receipts direct on sub-treasuries and for the encashment at sub-treasuries or treasuries, of cheques drawn by central and peoples' co-operative banks on the Provincial Bank, if satisfactory security is lodged by the latter bank with Government for the purpose and on its undertaking to honour such cheques when presented.

The Imperial Bank enjoys the privilege of holding Government balances free of interest at Government Treasuries where it has a branch. It is unlikely that it will be able to open branches, in the near future, at centres of petty trade, where generally the co-operative banks have offices. In such centres the central banks should be recognised as Government treasurers and the treasury balances should be placed in their charge.

As a rule the profits of co-operative banks in India are exempted from the operation of the Indian Income-tax Act, but they have to pay income-tax on taxable Government and Trust securities held by them. As income on Government securities also forms a part of the profits of co-operative banks, this is a curious deviation from the accepted principle, brought about by the way in which the Indian Income-tax Act is being administered in the country. This anomaly requires rectification at an early date by the issue of instructions exempting securities held by co-operative banks from the payment of income-tax on them.

Next in importance is the grant of subsidies to co-operative institutions for education and propaganda. This is one of the obligations Government must shoulder for their neglect of primary education, till free and compulsory education is established. At present it is not possible for Government to undertake this work and therefore voluntary organisations like the Bihar and Orissa Co-operative Federation should be liberally assisted in their efforts in this direction. So far this work has been mainly carried on by the Co-operative Federation with the help of contributions levied on co-operative banks. With limited funds available for the purpose, no systematic work on these lines can be undertaken, and the burden of such contributions on the slender resources of co-operative banks is already too heavy to be borne without further weakening their already weak financial position. The central banks hold training classes for the office bearers of primary societies. The cost of such classes is met either from the resources of the central banks or by a donation from the Provincial Bank which annually sets aside a sum of Rs. 5,000 to help those central banks which are unable to bear the expenses themselves. The central banks also incur expenses in connection with propaganda and training in the shape of travelling expenses of their Directors and staff, for organising tours and demonstration lectures. They have also to contribute about Rs. 30,000 annually for the upkeep of the Central Co-operative Training

Institute at Sabour, and Rs. 50,000 annually for propaganda work carried on under the supervision of the Bihar and Orissa Co-operative Federation. The total expenditure incurred by co-operative banks in the Province out of their own resources for propaganda and training, on a conservative estimate, annually amounts to Rs. 1 lakh, while the total amount of direct contribution annually made by Government to the movement for the purpose amounts to Rs. 7,500 which is very small.

The agriculturists have to pay annual rent to their zamindars but the latter sometimes refuse to accept or grant a receipt for the rent offered. In such cases it will be easy for the tenant members to deposit the rent either in his co-operative society or the local central bank. With a view to prevent inconvenience to poor tenants the recognition of such tender in law is essential, provided a registered notice is served upon the landlords concerned.

II. INDIGENOUS BANKING.

The usual functions of an indigenous bank or bankers are the giving of loans, arranging remittances, and in very few cases taking deposits. All indigenous bankers lend money and arrange remittances for self, but generally very few of them accept deposits. Deposits in such cases are confined to friends or relatives of the banker, and are hardly open to the public.

The city bankers do not directly finance agriculture but they finance the *mahajans* in mufassal towns, who in their turn finance the agriculturists. They do not finance foreign trade but confine their activities to the financing of the internal trade of the country. In the mufassal towns, they have a large share in the financing of small and big industries. Their expenses of management are small, as they do not engage any highly paid staff, but do all the responsible work themselves. They borrow money cheaply from one another and at times from banks. They have daily transactions with each other. Whenever any indigenous banker requires money, if his credit is sound, it is available from his fellow bankers at short notice, but with a view to maintain his prestige, he does not resort to this method, but refuses advances, if his own funds do not permit.

The various forms of *hundis* used by them are described before. Their method of making advances in cities to fellow bankers and big merchants is generally clean. They discount *hundis* of approved parties and advance them call or short period loans. The method of work adopted by many of them in case any needy zamindar or ignorant agriculturist is concerned is questionable. The rates and conditions of their advances vary in accordance with the intensity of the needs of their constituents. Their one object is to derive the hardest bargain and derive the greatest benefit permitted by the circumstances of each individual case. Various devices are adopted to raise the net yield on their investments to a high figure. It is true that some of the bankers do not prosper in spite of the alleged high rates they are supposed to charge. The real cause of this anomaly is the risk some of them run

in their attempts to obtain the maximum yield on their investments. The rates charged by bankers in the mufassal have decreased considerably due to the competition of the village societies, and to bring down their rates still further, a greater development of co-operative organisations is necessary. The *mahajan* or banker, for years to come, is bound to remain an important source for agricultural finance. Licensing of *mahajans* and bankers, legislations of the type of the Usurious Loans Act, Deccan Agricultural Relief Act and the Punjab Regulating Accounts Act are devices which can be easily evaded by them by various means, but these will certainly help in making the profession less attractive than at present. The remedy which will effectively provide an automatic solution to the complicated problem of *mahajani* in rural areas is the liberal development of co-operative societies.

Some of the indigenous bankers in cities are popular but as a class all the activities of bankers and *mahajans* are viewed with suspicion, of which they themselves are well aware. As a class, these bankers are influential and educated, and know how to take care of their funds. They need no additional legal or other facilities in their work.

Linking the indigenous bankers with the central money market.—Branches of commercial banks have so far succeeded in drawing out money from centres where they are opened for use in big commercial centres where the head offices of such banks are situated. In commercial banks the agents of branches have limited discretion in the matter of granting loans and their policies are dictated from the Head Office. In most cases these branches cater to the needs of fairly big constituents and by their very nature are not suitable to the needs of petty depositors, merchants and artisans. Even with the help the Imperial Bank receives from Government in the matter of free deposits, it has succeeded in providing banking facilities only in important mufassal centres of commerce and industry. The commercial banks have been still less successful in this respect. The reason is clear. Branch banking is not remunerative in centres where banking habit has not developed in the people to any appreciable extent. If encouragement is given to the organisation of small and independent banks and to capitalist banking firms, they will supply the much needed banking facility in minor trading centres and connect such centres with the central money market of the country. It will however be very difficult to control and co-ordinate the activities of such institutions and without proper control they may not inspire the confidence necessary for their success. A more serious defect noticed in the working of several small independent banking institutions in the country is the unhealthy rivalry for business and competition for deposits between them. In Bengal there are more than 600 loan offices distributed throughout the Presidency. The rate of interest allowed on deposits in the mufassal in Bengal, as well as in some of the provinces adjoining the Presidency, is on an average fairly high, in comparison with the rate allowed on deposits elsewhere. This may be due to several other causes, but the chief cause appears to be the competition between these loan offices. Attempts were made two

years ago, but without any appreciable success, to control and co-ordinate the activities of these loan offices, and provide a suitable central financing agency by organising a federal bank for the Presidency.

The best solution under the circumstances is the organisation of peoples' banks in urban areas under the Co-operative Societies Act. These institutions can attract savings of small men and employ them locally. A machinery exists whereby their activities can be controlled by Government. Organisations exist within the co-operative movement which can give them technical advice and provide them with funds when needed. Their profits belong to local constituents and will be utilised for the benefit of their constituents locally. These institutions can successfully connect the indigenous banking system with the central money markets if their number is increased, the restrictions imposed on them are removed, and they are organised on a sufficiently large scale to enable them to engage the services of trained assistants. Peoples' co-operative banks are not necessarily meant only for small people. The main consideration for a peoples' co-operative bank in granting loans should not be the amount of any particular advance, but its character and safety. The function of such banks should be to provide financial assistance to small and big traders and artisans in their areas of operations and also to provide cheap remittance facilities.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

For the encouragement of savings and investment habit there are insurance companies, provident funds and co-operative societies, banks and companies, postal cash certificates, savings bank accounts, and Government loans, and movable and immovable property.

The public is certainly provided with suitable facilities for investment. What is needed however is a provision of facilities for the encouragement of savings especially for men of small means. Excepting the insurance companies, provident funds and the agricultural co-operative societies, there are no means of directly inducing people to save regularly. Institutions making savings compulsory require to be multiplied with a view to encourage this habit in a larger class of the public. Co-operative thrift societies provide such a means and a valuable means of effecting savings in all large and small towns. Their system of work is that every month on or before a certain date every member of the society is required to deposit a certain sum in the society. The funds so collected are either deposited with co-operative banks or advanced as loans to members. The defect of the latter practice is that if the thrift society is not careful in the matter of making advances to its members it might degenerate into an ordinary credit society.

The Postal Savings Bank accounts and cash certificates are generally not unpopular, but the resources derived from these sources are utilised in meeting the requirements, not of the Provincial Government but of the Central Government. These savings which would otherwise be available to local banks for the finance of agriculture, trade and industries are thus taken away for use in places outside the Province. The yield on postal cash certificates is a little more than 5 per cent. per

annum and they therefore naturally come into competition with banks. The treasuries bills also provide facilities to large investors for short periods at remunerative rates and, due to the policy of issuing these bills in the slack season, provide also a good means for a remunerative investment of the surplus funds.

Cheques.—The cheque-habit has been growing in the Province. Since the abolition of the stamp duty on cheques there has been an appreciable increase in the number of cheques passing through banks. Another effect of the removal of the stamp duty on cheques has been the issue of several cheques of small amounts and as a consequence it has become necessary in some banks to rigidly enforce the rule regarding the minimum limit for which cheques should be drawn. The limit in all cases however is sufficiently low to enable depositors to make comparatively small payments by cheques.

Merchants and traders, salaried officers of Government or private firms, doctors, lawyers, contractors and other professional men generally use cheques. To promote the cheque-habit, it is necessary that Government and public bodies should accept cheques tendered in payment of their dues.

Endorsements on cheques in local vernaculars are permitted by co-operative banks. If the cheque forms in use are also partly printed in vernaculars, they will be more popular than they are at present. The central co-operative banks in the Province are not permitted to open current accounts as they do not possess several facilities which are essential for the success of this type of deposit banking. The chief difficulty in the way of their opening current accounts is the absence of facilities for a more rapid means of transferring funds from and to the Provincial Bank than the Remittance Transfer Receipts. The central banks in areas where they are organised have generally no means of investing their funds at short notice and without these means current deposits cannot pay. For investment, the funds have to be remitted to the Provincial Bank but when so remitted, they are not available promptly when required. If the central banks are permitted to open accounts and grant overdrafts at treasuries and sub-treasuries under proper safeguards, these will considerably help the development of current deposits and the cheque-habit.

Banking and investment habit in India.—The statistical data regarding banks and deposits held by them in India, if viewed in the light of its population and area and if compared with statistics relating to banks in other countries, it appears that banking and investment habit in India is of very slow growth. The statistics of banking in India relate entirely to banks run on western lines. They do not take into account the vast system of indigenous banking existing in the country. Unless figures for small banks as well as indigenous banks and bankers are also available, the progress of banking development in India cannot be correctly gauged and compared.

If however it is presumed that the banking and investment habit in India is of comparatively slow growth, this must be due to the general

lack of organised banking facilities and to the illiteracy and ignorance of the people. It must also be due to the poorness of an average Indian. The gross per capita income in India was Rs. 74 or nearly £5 (at 1s. 4d. to a rupee) in the year 1921-22 as compared with the pre-war per capita income of £50 in the United Kingdom, £72 in the United States, £30 in Germany, £38 in France, £23 in Italy, £54 in Australia and £40 in Canada per annum.

The result of opening new branches of the Imperial Bank has been the tapping of the districts for funds and taking these funds away to big commercial centres to the detriment of local industries and trades. The surplus funds of an area invested in banks should as far as possible be utilised in the same area, and with this view it is desirable to restrict the development of banking only on co-operative lines.

Additional Questions.

The natural born inhabitants of the Province do not appear to be more backward in banking than Indians of the same class from other parts of India. They certainly lack banking facilities.

Excluding the Imperial Bank of India there are three other joint stock banks having their head offices outside the Province which have branches in Bihar and Orissa, viz., The Allahabad Bank, The Central Bank of India and the Benares Bank. All these banks accept deposits while the local business of the Allahabad Bank is limited. If the money collected in the Province is utilised locally, it will certainly be of advantage to local industries and trades.

As practically every subdivision has a co-operative bank it will be preferable to grant additional facilities to these banks in order to enable them to open current accounts on which their constituents can draw by cheques. The post-offices by their very nature are ill-suited for the work. Opening of current accounts at banks requires vigilance and an accurate and up-to-date knowledge of the law and practice pertaining to the instruments in use. The postmasters in charge of subdivisional post-offices are therefore ill-suited for the work. A too rigid observance of rules might defeat the object and the post-offices cannot with safety be expected to relax the rules. If post-offices accept current accounts they would be competing with other banks on unfair terms.

For the reasons above mentioned, post-offices are ill-suited for the work of discounting commercial paper.

Almost all *mahajans* lend money against valuables and there is no scope for any extra agency.

Petty traders generally do mix up in a single account trading and banking transactions. These traders cannot be compelled to maintain separate accounts for such transactions, by legislation, specially because such dealings are confined to ignorant or needy constituents of these traders. Even without any legislation, traders having fair dealings with their constituents do generally inspire confidence in them.

Indigenous bankers due to competition between them are not likely to combine for the purpose of pooling information about their constituents. Besides pooling information through such combines is hardly necessary because no wise indigenous banker ever makes an advance to an unknown party until he is fully satisfied on all essential points.

It is possible to set up a class of licensed or registered money-lenders but it will be very difficult to either control their operations or to restrict their loans to productive purposes only. As control over their operations is difficult it is not desirable to set up a class of licensed money-lenders as it would seriously jeopardise the growth of co-operative societies without any benefit either to agriculture or industries.

There is a general tendency for investment in lands, with the result that although the yield does not justify the high price demanded the prices of lands have a tendency to rise. Competition for lands is so great that investments in lands now yield a return equal to the return obtainable from banks on deposits.

Small urban industries, retail traders and contractors obtain their finance from the local money-lenders who generally charge a lower rate of interest from them. If peoples' co-operative banks are organised in all centres of petty trades and industries, they will successfully provide the required facilities.

Oral Evidence.

(The answers, except those otherwise indicated, were given by Rai Sahib M. N. Roy.)

Chairman : Are you the Managing Director of the Bihar and Orissa Provincial Co-operative Bank and (to Mr. V. M. Thakore) the Secretary of the same institution?—Yes.

This memorandum that comes in Mr. Thakore's name has been approved by the Managing Director?—Yes.

At page 1 of the memorandum it is said that the most usual rate of interest varies between 24 and 40 per cent.?—Yes.

But in actual practice the *mahajan* gets a more considerable return, you say?—He does so by the method of account when dealing with illiterate people. It is different with others.

Is that the result of your personal experience?—It is not my personal experience but I know this from enquiries. I was in the Bar for about 30 years and from that experience I have formed this idea.

Have you made any organised enquiries?—No.

Professor Bathcja : Is it normal or exceptional?—I suppose it is normal.

Chairman : Is it the general rule that the *mahajan* gets more and the agriculturist pays more than the actual interest?—It is more general than not.

Don't you think you come across the cases which come to the courts of such abuses, rather than the cases which are amicably settled in the villages and consequently you get a somewhat distorted view of the whole position?—It is not so, we try to find out.

Mr. Hodge : Could you give a concrete example of the service rendered?—(Mr. Thakore.) The *mahajans* are local residents and their borrowers generally have to render a number of services in addition to the interest and redemption of loan. Sometimes they require personal service, service of their bullock carts, service for their fields, a sort of *begari*.

Chairman : How do you get information of that kind?—(Mr. Thakore.) I was myself an Inspector of Societies in Bombay for six years. I have come across about 500 societies personally.

Is it your Bombay experience?—(Mr. Thakore.) Yes.

Mr. Hodge : Another abuse you mention is the system of keeping accounts by the *mahajan*. Is that due to carelessness or lack of business capacity, or dishonest keeping of accounts?—I put it as intentional. I have no personal experience.

Chairman : You say the period for which the *mahajan* generally advances money has little relation to the purpose of the loan. Is the period usually expressed?—I suppose not. There is some oral understanding but there is generally no stipulated period.

Even in the bonds that come to the courts?—In such bonds they are mentioned.

What is the ordinary period?—It is anything between one to three years.

Mr. Hodge : In exceptional cases beyond three years?—There are exceptional cases, certainly.

Chairman : Would you suggest that the *mahajan* does not provide long-term credit?—My own idea is that he does, but he does not wish to commit himself in writing. He is an important asset, you cannot do away with him at present.

Is it a fact that the *mahajan* is quite content to realise his interest?—He is not keen about his principal provided he gets his interest.

You say that with the expansion of the co-operative movement lending by Government is becoming of still less importance. Do you think that this is a desirable development?—It all depends on the view point. If we start with the idea of co-operation and help the agriculturist then this interference or direct dealing with Government is not very desirable but of course from the other point of view if there is no co-operative movement in the village itself Government ought and they do come in.

Do you not think that in the present circumstances with co-operation extending to a comparatively small part of the population there is still room for Government finance?—Yes.

Do you think that the amount of advance that Government supplies is adequate in the circumstances?—No, it is not adequate.

What sort of increased help do you think Government ought to give under the Agricultural Improvement Act?—(No reply.)

Do you think sufficient facilities are not given?—That is my idea.

What part of your country are you thinking of?—I am thinking of Bihar as a whole.

For what class of improvement?—Land improvements generally.

I understand that you have practical suggestions to make that in South Bihar at any rate Land Improvement Loans should be very freely available for *gilandazi* and for the distribution of seeds and manures?—Yes.

Supposing that the distribution of seeds and manures is not at present covered by the Act do you advocate the Act being extended?—Yes.

Have you any recent experience of the distribution of *takavi* under the Agriculturists' Loans Act on a large scale?—No, we have not. But four or five years ago there was a flood here at Masaurhi and Dinapur, and the Government handed over the money, Rs. 3 lakhs, to us and we distributed it through the primary societies.

Was it distributed through your agency to persons who were not members of the primary societies?—It was distributed only to members.

Then Government would naturally have to make some arrangement for the non-members?—Yes, for them who are not members.

In that area did you hear of any difficulties the non-members experienced in getting loans?—No, I did not.

Mr. Hodge : You say that there are only fifteen centres which possess a branch either of the Imperial Bank or of a joint stock bank or of both. I suppose in your judgment that is altogether inadequate?—Absolutely.

Chairman : Do you think that there is scope for more branches?—Yes. I do, but I am not sure if they can be profitably worked.

Is it your opinion that there is scope for more branches of joint stock banks or of the Imperial Bank for the purposes of (1) attracting deposits, (2) lending money in the area in which they are operating, and (3) facilitating remittance?—(Mr. Thakore.) Yes. There is a need but there is no possibility of there being any branches, because they would not be paying.

Do you think that the existing co-operative central banks by expanding the scope of their activities might fill the gap?—(Mr. Thakore.) Certainly.

And more suitably than branches of big banks?—(Mr. Thakore.) Yes.

Mr. Hodge : Are the existing facilities adequate?—(Mr. Thakore.) No.

Professor Batheja : Are you sure that these central co-operative banks will be managed on business lines?—They should be. If they are not worked on proper lines they cannot survive.

Is it not a fact that these directors mostly depend upon Government support and Government encouragement and they therefore advance rather with insufficient sense of responsibility?—I would not go so far. I have got a better idea about the directors of central banks. They try to work on right lines but unfortunately they are amateurs. I do not deny that directors of many central co-operative banks make mistakes. They do so out of sympathy and in order to serve the country. Unless you get the right type of man no bank can succeed.

Chairman : Do you think that it is a real service to the country to advance money beyond the capacity of the borrower to repay?—No one said that. Sometimes they feel sympathy for the debtor otherwise if you take only the capitalist point of view it cannot serve the poor *raiyyats*; but my own idea is that you would serve them better than by opening more branches after ordinary joint stock type of banks.

Is it your experience up to now that either the Imperial Bank or the joint stock banks have really got down to the proposition of lending money to the agriculturist himself?—They have not.

Professor Batheja : You suggest in your memorandum that the branches of joint stock banks are likely to prove expensive as compared with the independent banks of the co-operative variety. May I point out that is not the experience of other countries such as England and America?—(Mr. Thakore.) I have absolutely no experience of foreign banks. So far as our poor country is concerned co-operative banks ought to serve a good purpose.

Without consulting foreign experience is it not reasonable to suppose that a bank which has its own complete independent office is likely to cost more than a branch which is supervised from headquarters in important matters?—(Mr. Thakore.) We are suggesting the organisation of peoples' co-operative banks in place of branches of commercial banks as their costs of management will be far less than the cost of a branch.

Is it not a question of small scale *versus* large scale management? You can manage the same amount of business much more cheaply by centralised control than through a number of small independent banks?—(Mr. Thakore.) You must be aware of the result of diminishing returns. By too much expansion of branch banking the result is not always the economic administration of branches. The law of diminishing returns always applies at a certain stage which is very low in this undeveloped country.

Mr. Hodge : Is it essential that every branch of the Imperial Bank should pay?—(Mr. Thakore.) In the beginning it may not pay;

some branches did not pay. But Imperial Bank is a Joint Stock Bank and will hesitate to open branches if they did not pay.

Chairman : You say that the total membership of the co-operative societies is 225,000 and the total working capital per member is about Rs. 100. Is that what the average member wishes to borrow every year?—(Mr. Thakore.) That is the total working capital invested by the co-operative societies.

Is it fairly close to the figure for the total annual requirements of the members?—(Mr. Thakore.) No.

Should not the total working capital in the co-operative movement be practically what the members wish to borrow in the year?—(Mr. Thakore.) Yes.

Have you got any idea of the relation between the annual borrowings and the total indebtedness?—(Mr. Thakore.) No.

Mr. Hodge : In regard to the membership of the ordinary co-operative societies how far is it made up of the village agriculturists? We hear it often stated that the more substantial agriculturists stand rather aloof from the co-operative societies?—(Mr. Thakore.) Yes. That is so.

Do you think it would be more likely looking at the question as a whole and taking into account the larger agriculturist that for annual average borrowings Rs. 200 will be nearer than Rs. 100?—(Mr. Thakore.) Yes.

Chairman : I understood you to say that you thought that possibly by including all agriculturists the annual borrowing would be raised to about Rs. 200 instead of Rs. 100?—(Mr. Thakore.) Yes.

In view of the fact that a fairly large number of more wealthy agriculturists not only do not borrow but actually lend. Do you think that that is a real justification for that?—(Mr. Thakore.) I am not sure whether all big agriculturists do not borrow at all. There might be some who borrow and in that case the estimate will be in excess of Rs. 100.

Am I right in saying that your membership practically excludes the people who have anything like a substantial proprietary right in land?—(Mr. Thakore.) They do not generally join the societies.

Mr. Hodge : You have stated in your memorandum that the person who is most heavily indebted is the zamindar or the small landowner?—(Mr. Thakore.) I think the agriculturists whether they are large or small are all heavily indebted.

Your estimate is based rather on the middle class of agriculturists?—(Mr. Thakore.) Yes.

In your memorandum you say facile credit has been the cause of ruin of many an ignorant agriculturists who is thereby tempted to be improvident. That would seem to imply that credit facilities are available. If a man wishes to borrow he can borrow quite easily. Is that so?—(Mr. Thakore.) I do not think there is any difficulty in

regard to obtaining his loan if he wants it provided he has got sufficient assets.

Does that imply that the *mahajan* who has got the money is ready to invest it?—(Mr. Thakore.) Yes.

Would that not in itself tend to bring down the rate of interest?—(Mr. Thakore.) Competition taking place between two institutions is always for the good of the people as it results in the lowering of rates. In the case of *mahajans* it is not so. They compete for business but not where the rate of interest and security is concerned.

If the agriculturist wanted to borrow money could he easily do it?—(Mr. Thakore.) Provided he has got assets, he can always borrow at a high rate of interest from the *mahojans*.

Chairman : Why is it that if there are a considerable number of *mahajans* who have got capital to invest that the rate of interest stays up?—(Mr. Thakore.) As I have said before, if there is competition between two institutions it has the effect of reducing the rate of interest but if the competition takes place between two *mahajans* or persons who are carrying on banking it does not necessarily result in the reduction of the rate of interest.

Professor Batheja : Why not?—(Mr. Thakore.) Because they are both interested in keeping the rate of interest high.

Chairman. Then would you advocate an attempt to organise *mahajani* into an institution?—(Mr. Thakore.) Yes, if that is possible.

If they were organised would the competition then be stronger?—(Mr. Thakore.) There is no experience on that point.

Mr. Hodge : From what you say it would appear that there is sufficient capital to meet all the legitimate requirements of agriculturists; the only obstacle is the high rate of interests?—(Mr. Thakore.) Yes.

Professor Batheja : Does the existence of this facile credit to which you refer go to indicate the existence of too much sympathy on the part of co-operators?—(Mr. Thakore.) Co-operators have nothing to do with facile credit.

Was this facile credit existing before the starting of the co-operative movement?—(Mr. Thakore.) I think it was.

Do you think that the supply of credit available in the rural areas for agriculture is adequate?—We say it is not quite adequate.

Then how do you reconcile the statement that credit has become facile?—I do not think there is any contradiction.

Do you think then that although the *mahajans* act individually there is a certain combination or understanding among them?—I should think so.

Chairman : Do you think that the rate of interest is a customary rate not an economic rate?—It has become so.

Do you think that the rate of interest does not go up or down gradually but only by rather large jumps due to the fact that it is always calculated in a particular way on the rupee?—That is so.

Professor Batheja : In your memorandum you say that the Registrar of Co-operative Societies has recently introduced a system of circle officers for central banks. Is not that in practice establishing branch banking so far as central banks are concerned?—No. Originally there were a number of inspectors and they were sent out from the headquarters of central banks for inspection. Under the new arrangement, the inspectors have to live within a certain ambit of primary societies. They have nothing to do with branches. Nor do they deal with money.

Are these circle posts, as I may call them, intended to create new branches?—No.

Chairman : Is it your view that it is unwise to check the growth of other indigenous financing institutions but that it requires regulating?—Yes.

Later on in your memorandum you say that certain forms of legislation could be easily evaded, but these will help in making the profession of *mahajans* less attractive. Do you recommend legislation in order to make the provision less attractive or do you recommend it in order to make it more efficient?—(Mr. Thakore.) The idea is certainly to make it less attractive and not to make it more effective.

Professor Batheja : If you make it less attractive, won't you check its growth?—(Mr. Thakore.) We would certainly check its growth.

Is it not unwise considering your idea on the paper here?—I think we are speaking about indigenous bankers and not indigenous institutions. There is an important distinction between these. An institution has a continuity of policy and life too. The present *mahajans*, as we find them, carry on from father to son but the idea of the father might be one which may not be that of the son.

Chairman : Which form of business do you wish to support, either a single *mahajan* or a group of *mahajans* acting through agents?—We wish peoples' banks or some similar institution on co-operative lines.

I am speaking of agriculturists?—The co-operative banks ought to suffice for them.

Would you welcome the destruction of village *mahajans*?—Not necessarily. They would still be there. But if a village had a primary bank their method of working would be very much better. The rate of interest has come down on account of a village having a primary society. Their method of work is also changing and they have to be more careful about their keeping of accounts. In fact, in some primary societies there are *mahajans* who are members and there are central banks where *mahajans* have joined to the benefit of both.

Mr. Hodge : Is it desirable that there should be closer association between the *mahajans* in small towns and the co-operative society?—Yes. I think to a certain extent.

Chairman : Am I right in thinking that the present policy which you are advocating for the co-operative movement is to encourage the

mahajan by every means possible to invest in the local co-operative banks and to take a share in providing capital and management?—Yes, provided he does not get a majority of votes.

I do not quite understand your distinction between institutions and persons. What do you mean by indigenous institutions?—A firm belonging to ten or twelve men who have invested their capital and started a sort of a bank. The policy will be common and they will be guided by the majority of men sitting together. They cannot do any illegal things and there would be a continuity of policy.

Professor Batheja : I want to have an example of indigenous institution of the type which you mention?—I cannot give an example off-hand. It is a group of people forming a sort of society carrying on a particular business. That is what is an institution. It is governed by its tradition.

Chairman : May I know whether the institutions which you are visualising are institutions to be regulated by a particular Act?—Certainly, yes.

The *Kist-kothis* are not the kind of institution you are thinking of?—No, unless they are organised under the Co-operative Societies Act.

Professor Batheja : If there is no example of an institution of the type which you contemplate, what do you mean by suggesting that we should not check its growth?—There are peoples' co-operative banks which represent the type of institutions we desire.

Would you advocate the growth of such institutions such as that of Babu Debi Prashad's private bank?—If it be the *raiyat's* bank, I would not object.

Would you prefer that indigenous bankers should seek incorporation?—It may be as well.

If that form of business does not suit local conditions or the policy of the proprietors would you suggest any means of making them seek incorporation?—The field should be left open for the development of institutions on co-operative lines.

Chairman : Are you seeking to have the existing system by which a large number of small men supply the bulk of the finance replaced by a system in which a comparatively small number of firms composed of the same individuals fulfil that function?—Yes.

Is it your view that the only way to bring about such amalgamation would be to suppress by somewhat drastic action the existing organisations?—I do not propose any drastic action. I only propose discouragement.

What form of discouragement would you recommend?—I would license them but put certain restrictions on the rate of interest and the keeping of accounts.

Professor Batheja : Would you advocate legislation on the lines of the Punjab Money-lenders' Act?—I do not know the Act.

Chairman : Do you realise that a good deal of money-lending is done by the actual *raiyyat* himself and would it not be difficult to force him to keep elaborate accounts?—If he cannot keep a proper and honest account he would have to go out.

Professor Batheja : Are you prepared to face the shortage of capital which might result from such an action?—(Mr. Thakore.) That has not been the experience. It may be true in theory.

You make a statement that co-ordination between the various financing agencies is impracticable and may prove injurious to the interests of the agriculturists if successful. In what way will co-ordination be injurious?—(Mr. Thakore.) If by co-ordination the *mahajani* system is continued it would not be to the advantage of the agriculturists.

Mr. Hodge : If we have some measure of co-ordination, would not that reduce borrowing, as lack of co-ordination leads to borrowing?—(Mr. Thakore.) Yes, but it is not desirable.

Professor Batheja : Why should not co-ordination be beneficial to the agriculturist also?—We think it would not be in their interests.

Will the co-operative societies not be able to defend the interests of the agriculturists?—We think not. Any co-ordination will only strengthen the position of the *mahajans*.

Mr. Hodge : Do you not advocate licenses for *mahajans*?—(Mr. Thakore.) No, we do not.

Chairman : Have you any experience of co-operative sale societies in this province?—I have personally no experience myself. But I understand that there was one at Fatwa, but it came to grief.

Up to now has there been any successful co-operative sale society in this province?—I have not come across any myself. But I do not take a pessimistic view. If they are run on right lines they might be successful. Unfortunately we have to deal with small land-holders and agriculturists who do not produce sufficient quantities for sale individually. Then there is the difficulty of grading the grains.

Then am I right in saying that the co-operative sale societies would be hampered first because they would have to deal with a large number of individuals who each provide a small portion of the stock and secondly there would be a considerable variety of grains for stock and consequently a very elaborate system of accounting will have to be kept up?—Yes.

Do you contemplate stocks of sale societies being held for a favourable term of the market or would the societies merely act as agents?—(Mr. Thakore). As the second.

Professor Batheja : Is not this work done by *arhatdars*?—(Mr. Thakore). Yes.

Is it being done efficiently?—(Mr. Thakore). Yes, but not in the interest of the agriculturists.

Do they charge a commission which is excessive?—(Mr. Thakore.) It is not the commission they charge; it is the price they pay to the agriculturists for the grain.

Have you any definite case in point where it has been proved that an *arhatdar* has sold for one of his clients at one price and told the client that he has sold it at another?—(Mr. Thakore.) I have not got any instance just now. (Rai Sahib Mihir Nath Roy—I would not subscribe to that.)

Mr. Hodge : Co-operative *arhatdars* would have to deal with big trading combines that buy the produce?—(Mr. Thakore.) They would be in a position to sell to them.

Is it a fact that the market is largely controlled by these big trading companies like Ralli Brothers?—(Mr. Thakore.) I do not think so.

Have not the big merchant agencies all over the country?—(Mr. Thakore.) Yes.

Professor Batheja : Have not they got correspondents all over the province?—(Mr. Thakore.) There are *arhatdars* and agents of big firms.

Chairman : In what commodity?—(Mr. Thakore.) Practically in all commercial commodities such as rice, *dal*, oilseeds.

Professor Batheja : Do you think that the *arhatdar* will charge a higher commission than the co-operative *arhatdar*?—(Mr. Thakore.) Even if he does not charge a higher commission, the profit made by the co-operative societies belongs to the agriculturist.

Do you think that the expenses of co-operative selling will be less than the expenses of selling through an *arhatdar*?—(Mr. Thakore.) I cannot compare.

Mr. Hodge : Do you think that this requires some independent grading expert?—My idea is that the cultivators themselves can do the grading well enough.

Chairman : Would you help the committee by explaining the difference between Remittance Transfer Receipts and Supply Bills?—(Mr. Thakore.) Supply Bills and Telegraphic Transfers are issued by Government on previous arrangement. For Remittance Transfer Receipts there is no previous arrangement necessary.

Why should you want a Supply Bill?—With Supply Bills we get the facility of Telegraphic Transfer.

Then you do not require a Supply Bill when you want to send money in a hurry but a Telegraphic Transfer?—Yes.

Chairman : What charge is imposed on the Supply Bill apart from the telegraphic charge?—(Mr. Thakore.) Two annas per cent. up to Rs. 10,000 and above Rs. 10,000 one anna per cent.

In addition you have to pay the telegraphic fee?—(Mr. Thakore.) Yes.

Mr. Hodge : Could the *hundi* be incorporated into the scheme of co-operative finance?—Yes. A *hundi* may be of great use. We could discount *hundis* as well.

Chairman : Would you advocate, at any rate, that co-operative banks in places where there are no other banks should be given the right of dealing in *hundis*?—Yes.

Do you think, from a practical point of view, that there would be no danger to the movement therefrom?—We think not much.

Would it be taking away the legitimate business of the people who are doing it perfectly well at present or merely creating extra facilities?—The idea is to create extra facility.

R. B. Dhandhanian : Are you referring to *darshani* or *muddati hundis*?—To *darshani hundis*.

Professor Batheja : Is there any risk for the co-operative central banks in taking up the function of *hundi* business?—No, if done properly.

Do you think the present managers of the co-operative central banks have got sufficient business capacity to distinguish between a good and a bad *hundi*?—They would be working in small subdivisions where on the Board of Directors there would be men who would know the people of the subdivision and also the *mahajans* whose *hundis* will come to the bank. In some cases the persons may not be known. In such cases a reference will have to be made to the member on the Board from that area.

Would it not be possible that there would be some loss?—Yes, there is the ordinary risk.

Would it be wise to endanger the money of the agriculturist by exposing the bank to the possibility of a loss?—The chances of loss and risk are small and we ought in my opinion to take that risk.

Do you know that indigenous banks have suffered great losses by cashing *hundis*?—I do not think they have.

Chairman : As regards railway receipts, is not the present system under which the railway receipt is sent along with a *hundi* adequate?—So far as I know it is not negotiable.

Professor Batheja : What provision do you want?—If facility was given, railway receipts might pass from hand to hand, but what actual provision would be necessary is more than I can say.

Chairman : You think that railway receipts under proper safeguards should be made negotiable?—Yes. I do.

Am I right in thinking that you cannot suggest any safeguards at present?—No. I cannot do so off-hand.

The advantage of making it negotiable would be continuously to raise credit on it during the period of transmission?—Yes.

Professor Batheja : Would this advantage outweigh the disadvantage?—I think the advantages would be more than the disadvantages.

Do you think it will place a very heavy burden on the railway authorities and will you exempt them from all losses if there has been

fraud in passing on a railway receipt?—I never take the railway into consideration. I only take the consignor and the intermediary.

Chairman : Is it your idea that the railway should not be made responsible for delivering the goods to the wrong person?—Provided he produces the railway receipt.

You say in discussing warehouses that the licensed warehouses would facilitate merchants but not the agriculturists and you put forward as an alternative co-operative marketing. I understand that your suggestion is that these co-operative sale societies should operate as warehouses rather than sale societies in the sense that has been hitherto understood?—(Mr. Thakore.) Yes.

Is there any objection in those circumstances to the co-operative society itself being licensed as a warehouseman?—(Mr. Thakore.) I do not think there is any objection.

In the interval which must elapse before these co-operative warehouse societies are established, do you see any objection to licensing the existing warehousemen in this manner?—(Mr. Thakore.) There does not seem to be any objection.

You say that the agriculturists will not be benefited; will they be definitely penalised by this arrangement?—(Mr. Thakore.) I do not think so.

If it is established that this system would be to the benefit of trade and so to the commercial prosperity of the country, would you have any other objection?—(Mr. Thakore.) None.

You say that the sale societies, which you are contemplating, cannot be started without considerable amount of assistance from Government. Why should not the provincial bank supply the assistance?—The assistance required is not with regard to the financing of the crop but with regard to building godowns for which provincial bank cannot advance loans.

Mr. Hodge : Are you for Government loan or for a subsidy?—I think some loans have been granted already by Government for the erection of seed godowns in Banka.

Chairman : I gather you are in favour of mortgage banks?—I am not against them.

What class of client are you contemplating?—Agriculturists certainly, and zamindars as well.

That is to say the actual cultivator and the proprietor?—Yes.

Do you think that one type of bank will serve the ends of both classes?—I do not know why it should not, provided we have got the necessary capital.

Would not the investigation of the assets of the agriculturist proceed on different lines from those of the proprietor?—Yes.

Also would it not be possible to grant the proprietor a longer term credit than it would be safe to do for the cultivators?—That would have to be considered on individual cases.

Is it a fact that at present the co-operative banks are beginning on a small scale to act as mortgage banks?—Yes.

But are they not dealing with the problem as it concerns the cultivator?—Yes, mainly with the cultivators but there are exceptions.

Do you think that it would be reasonable to develop that side of the co-operative movement and at the same time to pass on the problem of the proprietor to another organisation than the existing central banks?—I will much prefer that but as we are doing now we cannot raise long-term funds from the market unless we get the debenture scheme through.

Do you think it is a reasonable division of labour, so to speak, to give to the co-operative department as it stands now the function of developing a land mortgage bank scheme for the cultivator and exclude from their operation at any rate for the present the provision for long-term credit to the zamindar?—Though it will mean strain on the co-operative movement to do so, I would not exclude the zamindars from the scheme.

When you say mortgage banks on co-operative principles are desirable, what do you mean precisely by co-operative principles?—I mean unlimited liability.

You advocate unlimited liability for land mortgage credit to cultivators?—Yes.

Do you think that the cultivator will accept that willingly?—Not quite willingly, but they will have to.

Do you think it is necessary to have unlimited liability?—I do not think it is absolutely necessary.

Why do you advocate imposing unlimited liability if you do not think it is necessary?—Because I feel it would be much better if it was run on co-operative lines.

Supposing you cut out the unlimited liability, in what way would you retain it as part of the co-operative movement? Will it be on a surer basis?—Yes, and will also ensure necessary supervision and guidance which these mortgage banks are bound to require.

Will there be a definite liability of a somewhat important character?—Yes.

Do you think that the lack of the unlimited liability principle would have any effect on the attraction of depositors or persons willing to buy debentures?—I do not think so.

Mr. Hodge: Is it a fact that the doctrine of unlimited liability is hardly ever carried out to its logical conclusion?—So far as I know, it happens very seldom.

Do you admit that the land mortgage bank would meet a real need that is not met now by the co-operative movement?—Most decidedly.

Chairman: Is it your idea that the existing central banks should expand their function of doing that part by debentures raised possibly

by the provincial bank and passed on to them?—My idea is that central banks do not in practice give long-term loans, but mortgage banks as I understand should do. It was resolved in the Registrars' Conference held at Bombay in 1926 to give loans for land redemption and for other purposes.

Could you organise the provision of long-term credit to the cultivator by creating in large central banks a land mortgage department which would keep separate accounts?—That is our idea but there is also an opposite view. It would mean the amalgamation of the two organisations. For one central bank it would rather be too much.

You support the view that I have put forward. In the alternative there would be a land mortgage bank operating under a separate directorate and separate capital from the central bank. Would you organise this in each district of the province?—I would only do it when there is a necessity and a demand.

Is there no necessity for redemption of debt and land improvement?—I have not got the statistics. Wherever there is a genuine necessity there should be a land mortgage bank.

Can you put forward any argument for having a separate organisation?—The technique is too much for the present directorate. There ought to be expert valuers and expert legal advice. The present directors of the central banks are not competent to deal with these.

People who advocate that view wish to limit the function of the central banks to providing short-term accommodation?—If you keep them absolutely separate one from the other, it would be difficult for the agriculturist to get funds for his day to day work.

What do you think to be the period of a long-term loan?—From 3 to 20 years.

At present the central banks and primary societies do not go much beyond 10 years?—It is generally 5; 10 is rare.

Do you think there is great need for land mortgage banks for proprietors?—I think there is. सत्यमेव जयते

In what districts?—Patna district.

Supposing that the system of land mortgage banks was proved useful, do you think Patna district would be the district to start with?—Yes. I think Gaya would be the next.

Would you find sufficiently trained directors in Gaya as in Patna?—Unfortunately our past experience is not favourable.

What about Muzaffarpur?—I do not know.

Mr. Hodge : Do you not suggest that they should be started very cautiously?—Yes. One or two at the outset and only after proper enquiry.

Professor Batheja : If land mortgage banks are started for zamindars what sort of financing agency would you suggest?—A system of joint stock banking.

Would you have these land mortgage banks on the district basis or on the provincial basis?—The area should be small to begin with; I would prefer a subdivision.

Would the land mortgage banks be sufficient for floating debentures on the market?—No, it will be done by the Provincial Bank.

Chairman : Supposing we started with two land mortgage banks as an experiment would the provincial bank be in a position to act as an apex bank for the time being?—I would certainly like to take it up.

Possibly it might be necessary to create a separate apex bank later if the experiment succeeds?—Yes.

Whatever Government control is necessary, would you place it in the hands of the existing co-operative department?—Yes.

Even if it be, strictly speaking, not a co-operative institution?—Yes.

Assuming that there is Government control, would you have the Government control of the existing Co-operative Department or a separate agency?—I would prefer the existing arrangement.

Professor Batheja : At what rate can you float the debentures from the apex bank for the proposed land mortgage bank?—It depends on various things. The present market is not favourable. With Government guarantee, I think it would be possible to get the required amount at 5 to 5½.

Would you raise this capital from within the province?—We may have to go out of the province.

Chairman : Assuming that you could start with a working capital of Rs. 20 lakhs could you raise that without difficulty in the province?—(Mr. Thakore.) Yes, provided they were trust securities and there was a Government guarantee.

Do you think that the public has got plenty of money?—(Mr. Thakore.) Personally, I think so.

Professor Batheja : What do they do with the money now?—Probably they are quite satisfied with keeping the money in Government securities and in banks as deposits and earning dividends.

Do you think they could be induced to buy your debentures?—Yes, given these facilities and Government and the Imperial Bank helping us.

Chairman : Have you not a cash credit with the Imperial Bank?—Yes. About rupees seven lakhs.

Can you suggest any reason why that cash credit should not be passed on directly to central banks operating at a considerable distance from Patna?—(Mr. Thakore.) The Provincial Bank will have to object to this because it throws the burden of providing fluid resource on the Provincial Bank without any return.

Is it not a fact that the Cuttack Central Bank applied to have a cash credit with the Imperial Bank rather than hold it with you?—They have not applied to us for it.

If they did so, would you oppose it?—(Mr. Thakore) : Yes.

Would it not be possible to give them the facility for the present and withdraw it if they were going in a way that was dangerous to the stability of the movement?—(Mr. Thakore.) No, because if the facility is once given it cannot be withdrawn.

Mr. Hodge : Does it not affect in this way that the control of the provincial bank is minimised?—(Mr. Thakore.) Yes.

What means have you got to have these credits obtained by central banks from outside without your permission cancelled?—(Mr. Thakore.) We write to the Registrar and ask him to withhold his permission.

Can he do so?—(Mr. Thakore.) Yes. He has got the power.

And if the central bank opens a current account with a joint stock bank?—(Mr. Thakore.) In that case we do not object.

Why should there be an objection to a cash credit?—(Mr. Thakore.) It diminishes the control of the provincial bank and weakens its position in the movement.

Would not the control of the provincial bank be sufficiently preserved if this permission was given for the period of good behaviour?—(Mr. Thakore.) I believe it will not be so because the power cannot be withdrawn easily once it is granted.

Do you realise the inconvenience of the Cuttack Bank when it wishes to replenish its money?—(Mr. Thakore.) Yes, but this can be removed if Government gives us the power of transferring money by Telegraphic Transfers at par and the Imperial Bank encashes cheques of central banks against the bank as suggested in memorandum.

Chairman : You have a cash credit with the Imperial Bank, why should you not distribute that cash credit to your affiliated banks of the province throughout its geographical divisions?—(Mr. Thakore.) In that case the burden of fluid resources falls on the Provincial Bank and it does not get any benefit out of it. Besides there are very few branches of the Imperial Bank, only eleven in the Province, and this facility cannot therefore be of benefit except to a fortunate few if granted.

Professor Batheja : Has the Provincial Bank at any time been embarrassed with surplus funds?—Yes. Occasionally.

How much of the surplus is invested outside?—Rs. 10 lakhs out of Rs. 72 lakhs is invested outside the Province. (At this stage the Chairman wanted to have a copy of the balance-sheet which was supplied.)

Have you no opening here and do the central banks not want that money from you?—(Mr. Thakore.) We have not got any employment for that fund in Bihar and Orissa.

Are you compelled to give your money only to the co-operative societies here?—(Mr. Thakore.) Yes, under the Statute.

Can you not lend to any other outside agency?—(Mr. Thakore.) Under the Co-operative Societies Act we cannot.

Do you employ your surplus outside the Province in provincial banks?—(Mr. Thakore): Yes, mainly in Provincial Banks since the organisation of the Association of Provincial Banks.

Is that provided in the Articles of your Bank?—(Mr. Thakore.) Yes.

What solution have the directors thought out to meet the difficulty of surpluses?—When we found the central bank's rate of interest much higher than we were prepared to lend to the Central Bank on local and foreign deposits, we circularised them and also approached the Registrar for sanction and they have reduced the rate on deposits by about one per cent.

Chairman: Why should it be necessary for you and the Registrar to bring pressure on to the central banks to reduce their rate of interest on deposits?—Because the surplus money is with us but on principle we do not wish to put pressure on their taking deposits locally. We only give advice.

Is it a fact that the management of certain central banks is prepared to pay a rate of interest on deposits higher than what is the market rate in order to benefit certain class of clients?—Yes, I am afraid.

Professor Batheja: Which are these classes that you had in mind in answering the last question?—I do not differentiate by class. I mean friends, acquaintances, dependents, patrons, and others like that.

Did you not say in reply to the question of the Chairman that in fixing the rates of deposits for customers certain classes are benefited?—By class I meant the persons attached to the directors of the bank by personal or business tie.

Has not the provincial co-operative bank been started for the benefit of the central co-operative banks?—Certainly.

Do not you think it fair that the central co-operative banks should not weaken the position of the Provincial Bank by having financial facilities from other banks in times of prosperity?—They ought not to.

Do they come to you in time of adversity?—Yes, they do.

Mr. Hodge: You have to think of financing the movement as a whole?—Yes, quite.

Can you suggest any practical means besides the influence of the Registrar of Co-operative Societies for inducing central co-operative banks to lower their rate of interest?—We have got the power as the apex bank over the affiliated central banks and we can insist and enforce a rate of interest, but on principle we do not nor do we wish.

The mutassal banks which have got funds and do not stand in need of more can defy you?—Yes, they can.

Can you suggest any means of controlling the banks?—We cannot think of any except through the Registrar.

Chairman: Do you in any way advise the Registrar on big banking questions?—Yes, since Mr. Thakore has been here he has been doing so.

Do you think it would be advisable to establish a provincial advisory committee for the Registrar?—Personally I do not think that there would be any intricate question which would require an advisory committee. In our bank there have been no such questions yet which our Secretary has not adequately solved.

(Mr. Thakore.) In other provinces what they do is that for financial questions the Provincial Bank invites a conference of central banks for discussion and they appoint a standing committee to carry out the decision. They collect together at the conference and thrash out all important matters. This is what is happening in Madras and Bombay and we are also convening one shortly.

Chairman: Do they not invite any outside banker to help in these deliberations?—(Mr. Thakore.) If at all necessary they do invite.

I was contemplating an expansion of the co-operative movement to a very considerable magnitude. In that case it would not be quite reasonable to impose upon a single officer like the Registrar the whole burden, and not only the co-operative bankers but other bankers might possibly be usefully drawn in to advise on the policy. Do you think it would be possible to have an organisation of that kind?—Yes.

Professor Batheja: Do you think such an adviser would also have the advantage of settling disputes between the central banks on the one side and the Provincial Co-operative Bank on the other?—Yes. If we could not decide the matter and there was necessity of reference to the higher authorities we would invite.

Do you admit the possibility of a conflict of interest between the Provincial Co-operative Bank and the central co-operative banks?—On principle there should not be but in practice sometimes there is.

Chairman: You suggest an annual allotment by Government for advances under the Land Improvement Loans Act. Have you any sum in contemplation for that?—I do suggest but have no particular sum in contemplation now.

You suggest that Government and public bodies be permitted to make payments by cheques on co-operative societies. Would not that mean starting current accounts with central banks?—Yes, and mean acceptance of cheques by Post and Telegraph offices and Government Treasuries.

Do you know why they are not accepted by these institutions now?—(Mr. Thakore.) I think because that means some trouble to the Department in collecting money.

Has the Provincial Bank any current accounts with individuals?—(Mr. Thakore.) Yes, it has.

Is there any serious objection to central banks starting current accounts?—Firstly, till they have got expert managers it would be rather risky and secondly, unless they have got fluid resources at their disposal which we suggest in our memorandum, it would be inadvisable.

The treasuries or sub-treasuries should be allowed to encash cheques of co-operative banks.

Do you agree that the current account business is at present beyond the capacity of central banks?—I quite agree but I think that when current accounts are opened and if the business becomes more profitable then the central banks might be in a position to engage efficient staff.

Would it not be possible to make experiments in one or two central banks?—Yes, it would.

Would it need a modification of the existing Act?—No. I don't think.

Professor Batheja : What are the qualifications of the present central bank managers?—They have got so far as I know very little technical education and very little practical training. Most of them have risen from the ranks.

What are their educational qualifications?—University education. Most of them I understand are graduates now.

Chairman : You say that the city bankers do not directly finance the agriculturists but they finance the *mahajans* in mufassal towns and they in their turn the agriculturists to a large extent?—Yes.

In what way?—(Mr. Thakore.) They lend to the agriculturists themselves.

Is it not probably more correct to say that they lend goods but not money?—(Mr. Thakore.) It is the general impression that they lend money.

Is it not your experience, on the whole, that the village *mahajan* does his money-lending on his own capital?—He does. He has also to borrow.

Does he borrow in the form of money?—Yes, that's my idea.

Your solution for giving banking facilities in trading centres is the establishment of peoples' bank?—Yes and on co-operative lines.

Professor Batheja : Are you against commercial joint stock banks?—I am not in favour of it but I am not against it.

Chairman : You suggest that institutions should be multiplied to make savings compulsory. What form of compulsion do you propose to apply?—(Mr. Thakore.) I would rather prefer compulsion as regards deposits.

Such as expelling him from the society in case he fails to deposit a certain sum every month?—(Mr. Thakore.) No, because the deposits already in the society might in that case lapse. It might be better if he is called upon to pay some penalty by way of fine such as an insurance company demands.

Am I right in thinking that the compulsion you propose would be the lapse or possibly only a deduction from the deposits already made?—(Mr. Thakore.) Only deduction from his deposit but not complete forfeiture.

If further deposits were not made?—(Mr. Thakore.) Deduction from the deposits already made.

Professor Batheja: Would this feature make the banks very popular?—(Mr. Thakore.) They are already in existence.

Chairman: You say that the money that goes into the post-office savings bank should be made available to local banks for the financing of agriculture, trade and industries. What kind of banks are you thinking of?—We have not attempted to make any distinction between the different banks.

Would this pay?—It may pay if properly organised. The idea is that money raised locally should be used locally.

Is it not a fact that at present the central banks are attracting as much deposit as they can possibly utilise?—Some of them are.

Is there no effective competition between the post-office and the central bank?—No. I don't think there is much.

Is not the post-office rate lower than what the central banks offer?—Yes.

Would you suggest that there should be any change in the law or administrative action of Government that would force savings banks deposits into a particular channel in those circumstances?—It would be better if it can be done.

Would it not be advantageous if the surplus money from a prosperous district should be employed in a less prosperous part of the same district?—Yes. Money should move and facilities should be given for such movement.

Would you not apply the same principle to a division?—Yes.

Then why should you stop at the Province?—We do not desire to confine investments to any particular area but only suggest that as far as possible money raised locally should be used locally.

Is it not an advantage to India as a whole that where money is plentiful it should be brought into some sort of organisation and utilised at the place where it is likely to be most useful?—Certainly, but in the beginning the surplus money should be used locally.

Mr. Hodge: What success has the co-operative movement achieved in developing the habit of thrift?—I have, I am sorry, already differed from two of the Registrars (the late Khan Bahadur Mohiuddin Ahmad and Rai Bahadur Durga Prashad). I may be wrong but I think it has failed. They think otherwise.

Chairman: You talk of the treasury bills providing facilities for large investors. Does the Provincial Bank deal in treasury bills?—Yes, when there is an invested surplus.

Is there any objection to the central banks dealing in them directly?—(Mr. Thakore.) No, there is no objection.

Can a central co-operative bank invest its surplus in treasury bills and can it raise money against these bills with the Imperial Bank?—

(Mr. Thakore.) A central bank can invest its surplus in treasury bills and it can raise a loan from Imperial Bank against them but it will not be permitted to do so.

Are the treasury bills negotiable?—(Mr. Thakore.) Yes, they can be transferred by endorsement.

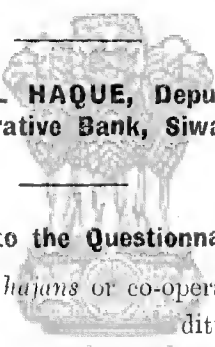
Are the treasury bills accepted by the Imperial Bank?—(Mr. Thakore.) Yes, for discount as well as collateral security.

Professor Batheja: How does it relieve you of the obligation of fluid resource if the central bank invests its surpluses in treasury bills and pledges these with you for advances?—It relieves in case of need by transfer. The Provincial Bank on obtaining these treasury bills will lodge them with the Imperial Bank and the limit of the Provincial Bank will be raised accordingly by the Imperial Bank.

R. B. Dhandhanja: Do you recognise that there is need for commercial banks in India for supporting the commerce of India?—Yes, certainly.

Chairman: You do not propose that the peoples' bank should take over this function?—No.

The traders' bank can at present be developed to take up big commerce?—Yes.


**Khan Bahadur SAGHIRUL HAQUE, Deputy Chairman, Central
Co-operative Bank, Siwan.**

Replies to the Questionnaire.

1. (a) From the local *mahajans* or co-operative societies.
- (b) Ditto ditto.
- (c) Ditto ditto.

In the years of scarcity and drought *takavi* loans are advanced to *ranyats* for agricultural purposes.

12 per cent. to 25 per cent. are the prevailing rates of interest in respect of advances in our district. Loans are generally taken for one year from the *mahajans* and interest is generally compounded every six months, but co-operative societies advance loans for one to five years. The period varies with the purpose of the loan. The security in co-operative banks is the personal credit of the members. The liability is several and joint. In cases of big loans collateral bonds are taken. The *mahajans* advance loans on personal credit of the borrower, the temptation being the exorbitant rate of interest and also the labour and other kinds of assistance they generally get from the borrowers. When the amount of cash debt becomes heavy the village *mahajan* takes mortgage of the land.

The only part played by the Government in agricultural finance is the advancement of *takavi* loans to the *raiya*s.

The Imperial Bank, the joint stock banks, the indigenous banks and others do not take any part in the agricultural finance. The part taken by the co-operative banks and money-lenders has already been mentioned above.

Merchants and dealers also do not take any appreciable part in agricultural finance.

I am unable to give an estimate of the total amount of capital for the various purposes stated above.

The defects in the present system are the exorbitant rate of interest charged by the *mahajans* and the fraudulent accounts which most of them keep and thus swindle their illiterate clients. The reason is the weak credit of the *raiya* and his illiteracy. The remedy in my opinion is the extension and development of co-operative movements in every village.

2. The present method of marketing principal crops in my district is that petty *baniyas* go round and purchase from petty cultivators and on *hat* days they keep their stocks on the roads leading to the *hat* and they purchase grain from petty cultivators in small quantities.

Big cultivators either sell their crops in market or big dealers go to the villages and purchase them.

Formation of pools and co-operative efforts in marketing produce will be useful to the producer if it is carefully done.

There is no credit facility to producers but the middleman gets money from the local *mahajans*, co-operative societies, or the *baniyas* with which he buys the product from the producer.

The different classes of banks and bankers advance loans on various conditions to the dealers.

Hundis, cheques, drafts, Remittance Transfer Receipts, postal insurance and money-orders are the existing facilities for internal remittance.

In my opinion there is no defect except that the system of *hundis*, etc., be made more secure by a legislation.

No suggestions to make for the more extensive use of bills.

Hundis are *darsani* (i.e., payable at sight) and *miadi* (payable after a certain time mentioned in the *hundi*).

Hundis are discounted in local centres, also held by middlemen, merchants, and commission agents. They are sent to provincial centres if necessary.

Railway receipts are employed for raising money from local banks. The banks keep the goods in deposit in their godowns and the money is paid back as the goods are sold. Such banks do not exist at every important centre of trade and thus a dealer who has not got sufficient capital suffers in business. Encouragement for establishment of such

banks is absolutely necessary. I think the assistance of Government is necessary in helping the formation of such banks.

3. (1) *Dhanhar* (paddy land) per acre Rs. 300.

(2) *Bhit* (*rabi* land) per acre Rs. 400.

The fluctuation in the price of the produce affects the price of the land and also the weak credit and necessity of the borrower.

(a) In our district land is not sold in Government auction for non-payment of revenue but it is the proprietary share that is sold.

(b) Value of land in the event of sale by court decree is ascertained. Good value depends on competition among bidders.

(c) Value of land in purchase by private negotiations has already been given above.

Lands bring good value if a purchaser is solicitous for the land.

4. No, but in case of sale of the mortgaged land by court at an auction it is open to the landlord not to recognise the sale and hence the mortgagor's credit is weakened and the mortgagee takes an undue advantage of it. This may be regarded as an impediment to the mortgage of land.

It is desirable to have the Bengal Tenancy Act amended in favour of the riyat in respect of this provision of the law.

There is no land mortgage bank in this Province.

There are co-operative agricultural societies in the district. They are worked on co-operative lines and the capital is raised by shares, deposits and loans.

It is desirable to have a land mortgage bank for the landholders and fairly big tenants, since the present Co-operative Societies Act is meant for petty agriculturists, artisans and traders.

(a) *Haisiat* registers of members of co-operative societies are prepared under the supervision of central bank employees to which the societies are affiliated. I should like to suggest that these records should be more carefully prepared under the direct supervision of the Registrar of Co-operative Societies.

(b) No suggestion to offer about simplification of process of foreclosure. The sale of mortgaged property should be done by certificate procedure instead of through the civil court.

(c) Copies of record-of-rights should be supplied free of cost to good constituents and other costs should be realised from the defaulters.

The working capital should be raised largely from deposits, funds from central institutions and debenture bonds.

Debenture bonds should not carry Government guarantee.

Does not arise.

Agricultural mortgage banks should raise monies on co-operative lines, i.e., they should accept deposits and take loans on a low rate of interest and advance loans at a little higher rate of interest, say 2 per cent.

No other suggestions to offer.

5. Yes. In rural co-operative societies a statement of property and debt is prepared every year.

The abstract of such statement of a rural co-operative society is herewith attached for reference.

Such a statement is prepared by central bank agency as is mentioned above. A reference to this statement will throw a light on the subsidiary questions under this head, viz. (a) to (c) and (a) to (h) and further.

The general rate of interest is 12 per cent. to 25 per cent. per annum. It is compounded every six months. Co-operative societies charge from $12\frac{1}{2}$ per cent. to $15\frac{1}{2}$ per cent. No compound interest is charged by the co-operative societies.

Lands of tenants and landed properties are passing on into the hands of the *mahajans*.

This process does not take away from the cultivators the incentive to produce more and in an efficient manner.

6. The following industries are in existence in this district :—

- (1) Rice-milling.
- (2) *Gur*-making.
- (3) Cotton-ginning.
- (4) Sugar refineries.
- (5) Hand-spinning and hand-weaving.
- (6) Wheat-grinding.
- (7) Oil-pressing.
- (8) Foundry.
- (9) Earthenware.
- (10) Bell metal.
- (11) Bangles (*churees*).
- (12) *Tikulies*.

Most of these industries are in hands of the capitalists and the tenants do not get any benefit out of them save and except the industries of *gur*-making. All these industries can be encouraged by organising them on co-operative lines. The best method of securing working capital for these enterprises will be by starting industrial banks on co-operative lines.

Advancement of loans by Government to such banks on a nominal rate of interest in the beginning and their dealing with the Provincial Co-operative Bank.

7. The Provincial Co-operative Bank has dealings with the Imperial Bank. Some of the co-operative central banks have got accounts with some of joint stock banks. Co-operative banks in this district have got nothing to do with the indigenous banks.

There is no difficulty in the matter of finance in the case of co-operative societies.

For the existing business of purely agricultural credit there is no necessity of further capital at present because deposits are easily available.

There is competition only in the matter of the rate of interests allowed.

In my opinion granting of financial concession in the shape of long-term loans from Government for big projects (i.e., irrigation, land improvement, etc.) will greatly help the development of the co-operative movement.

II. INDIGENOUS BANKING.

These banks have practically died out in this district. The shattered remnants deal with *hundis* which are of two kinds—*darsani* (payable at sight) and *miadi* (payable after a certain period).

The interest charged is generally from 6 per cent. to 12 per cent. There is a prejudice in this locality against indigenous bankers for their unbusinesslike method of working.

This class of bankers can be made more serviceable to the community if legal measures are introduced for regulating their operations.

They do not finance agriculture.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. Shares and deposits.

Imperial Bank, joint stock banks, co-operative banks and postal savings banks are the means for encouraging savings and investment habit.

Yes. The public is provided with full facility for investment of their savings.

Yes, by extending co-operative societies in villages.

Investment in silver and gold is generally made in the shape of ornaments for females.

2. No. It requires propaganda for making it popular. The interest on cash certificates should be raised to 6 per cent.

There is no complaint against the postal savings banks in affording facilities to the public.

Educated classes generally resort to such investment. Other classes can be attracted by propaganda.

The alleged competition of Government with other banking institutions is based more on sentiments than reality.

3. People in this district invest their money in purchasing lands, landed property (zamindari) and on advancing loans to fellow villagers on a high rate of interest. They generally keep the money in their houses but educated people also deposit their money in banks.

The farmers lend money to fellow agriculturists for various terms on mortgages, handnotes and *bahikhata*.

In a prosperous year they purchase and redeem lands, pay off cash debts and spend lavishly on marriages and ornaments.

4. Cheque-habit is growing slowly among the educated class. Uneducated class is not even aware of it.

There has been no appreciable effect of the abolition of stamp duty on cheques.

I have no suggestion to make for further promoting the cheque habit.

Both Urdu and Hindi scripts should be used in banking for the facility of the masses.

5. Yes. I support the view. I attribute it to the illiteracy of the masses and their indifference in the matter.

The best way of educating the people of the country to invest their savings in productive undertakings is by the quick development of co-operative movement which requires greater backing from the Government.

I do not know what has been the result of opening new branches of the Imperial Bank of India but I am told that it has not made any appreciable headway in this matter in this district.

Additional Questions.

1. Yes. In this Province the native born inhabitants are backward in banking activity as compared with Indians from other parts of India. In my opinion this is due to the following causes :—

(a) The people of the Province are very backward in commerce. Commerce in this Province is chiefly in the hands of the Marwaris or people from Bombay and other provinces so banking activity is also mainly in their hands.

(b) The illiteracy of the masses.

(c) Educated persons do not generally get encouragement from any quarters for banking.

2. Yes. Allahabad and Benares Banks. They do attract savings and they are mostly used outside the Province.

I regard this as an evil and the only way to remedy it is to help the native of this Province to develop their industries and trade and to take to improved methods of agriculture.

2. (a) I am not in favour of this idea. In my opinion it would be much better to develop co-operative societies in the mufassal and thus to afford facilities to the masses to open current accounts with primary societies. The co-operative movement is under the direct supervision of Government and commands a fair amount of confidence in rural areas. The Government therefore need not undertake this business separately.

(b) Yes. It is possible, but the system would not be of much use to the people for whom it is proposed to be introduced. Discounting of *hundis* and other papers is done without much difficulty by indigenous banks and other merchants.

4. There is scope for banks to carry on pawning business. To start with there should be a few State-aided institutions but there must be State regulations to guide the activities of others who do the business.

5. (1) Yes. (2) The practice does not lead to evils. (3) No.

6. Yes, if properly conducted, there is no obstacle for the indigenous bankers combining for the purpose.

The law of libel is a sound law and should exist.

7. It is not desirable to setup a class of licensed or registered money-lenders. It would be better instead to develop co-operative movement. Loans are generally advanced to members of co-operative societies for productive purposes.

8. No.

9. They obtain their finance from *mahajans*, indigenous banks, joint stock banks and co-operative societies. Their facilities can be improved much by improving urban co-operative societies to which very little attention has been paid up till now.

10. No. Courts are not sympathetic. There are no restrictions on usury in force. The only restrictions are religious ones in cases of Muhammadans, but it is a pity that they pay interest at usurious rates but consider it as an act of impiety to take interest even at a reasonable rate.

Oral Evidence.

Chairman: You are the Deputy Chairman of the Siwan Central Co-operative Bank?—Yes.

For how long?—For the last ten years nearly.

And before that you were connected with the co-operative movement in other ways?—Yes.

Is your experience of co-operation mainly limited to the Saran district?—Yes.

I suppose you have also gathered information about co-operative work in the rest of the Province from time to time?—Yes. I was

sub-registrar in the Muzaffarpur district and I was intimately connected with the co-operative movement then.

You have stated in your written memorandum that the Imperial Bank, the joint stock banks, the indigenous banks and others do not take any part in the agricultural finance. We have recorded evidence to-day which shows that the indigenous bankers do lend money to the smaller town *mahajans* who in their turn lend money either directly or otherwise to the village agriculturist. Is that your experience?—That is not my experience. The village *mahajan* gets his money from another bigger village *mahajan* and then lends it out in his and neighbouring villages.

So, you think that the village *mahajans* are in very little touch with indigenous money-lenders in the towns?—Yes, that is my view. The indigenous bankers in the towns are called *Kothis*.

Mr. Hodge: And even the agriculturists don't take their loans from the indigenous banks?—No, they do not do so. In my own town there was an indigenous bank which failed.

You have said that the *mahajans* keep fraudulent accounts and thus swindle their illiterate clients. What sort of evidence have you which enables you to say so?—I have gained enough of experience and evidence. As a co-operator myself I have to deal with *mahajans* in settling accounts, etc. I am also living in a village where these *mahajans* do most business.

Do you think that these irregular accounts are caused by dishonest intention of the *mahajans* or due to bad business methods?—I can certainly say that is due to dishonest intentions. The *mahajan* always wants to keep his client under his thumb.

But I have come across cases where the *mahajans* have muddled up their accounts due to bad business methods?—May be so.

Chairman: Why then, when we visit the villages where these *mahajans* do business, do we seldom hear complaints of this kind from the villagers?—Because the people are timid. They are afraid to speak ill of the *mahajans* to whom they should resort whenever they are in need.

Can you give us an illustration of a case where accounts have been fraudulently maintained? One specific case would do for us just to give us an idea about the thing?—I do not remember them now but I shall write to you officially later on.

R. B. Dhandhanian: How many co-operative societies have you opened?—About 270. In the beginning I organised 62.

How many members are there affiliated to primary societies under your central bank?—About five to six thousand.

Chairman: How many people have freed themselves from debt to their societies?—I am not certain if anybody got himself freed from the society, but I can say that there is a certain percentage of members who have increased their assets by becoming members and still they

are debtors of the society. There are also some comparatively rare cases where the members having paid off their debts have severed their connection with the society.

Who are the members of the society who go to the *mahajan* again?—We have had instances of that kind as well. In one case we cleared the debts completely paying out to the *mahajan*. After a few years this man resigned his membership with the co-operative society and again went back to the *mahajan* and later on he severed his connection with the *mahajan* and is now back again a member of the society. These *mahajans* have always an eye on their clients and they never lose any chance of entrapping them.

Mr. Hodge: Is it not a fact that there are instances where a member having paid off all his debts to the society has resigned?—Of course, there are a few instances like that as well.

Chairman: You say that petty *banias* go round and purchase from petty cultivators and on *hat* days they keep their stock on the road leading to the *hat* and they purchase grain from petty cultivators in small quantities. Is there any objection to that kind of marketing?—No.

Mr. Hodge: Do these people who sell their stuff know the market rates?—In most cases they are women and they do not know the market rates.

Chairman: Can you suggest any means by which these women could be told what the market rates are?—I think it is extremely difficult to do so.

Would it not be possible for these women to get better prices by going to another place walking an extra mile or so?—Even in *hats* there are people who are called *pallowalas* who purchase from these women in small quantities and then sell them to bigger dealers. These women generally bring some quantity of grains to be converted into money to enable them to purchase their other necessities. These *bazan banias* or the bigger dealers do not purchase these small quantities from the women directly.

So do you not concede that these *pallowalas* perform some useful function?—Yes, it is useful from this point of view.

You speak of banks keeping goods in their godowns and you say that you are in favour of that kind of dealing?—Yes.

Would you encourage it by some assistance from Government?—Yes.

Have you any idea what assistance Government could give to the formation of such banks?—Such banks do not exist at every important centre of trade or commerce, but they are required very badly. Co-operative banks as at present constituted cannot cope with the work but such banks should be organised as co-operative banks.

Are they not rather co-operative warehousing societies that you have in contemplation?—Exactly so.

Do you think it also advisable for Government to encourage in some way individual enterprises of that kind?—Yes, that will also be good.

Do you find warehouses are established in certain parts of your district?—There are no warehouses at all in my part of the province.

Are there no *golas* in your place?—Yes, there are some but they only store grains for their clients and get some commission.

Mr. Hodge:—You suggest grain banks instead of central banks to do this business?—Yes.

Chairman: Do you know much about the way in which the sugar industry is carried on in Siwan?—I know a little but not much.

Do the factories there draw their supplies of cane from any definite area?—They collect their cane from a number of districts by rail and in other ways. They have also got local areas from which they draw their supplies.

Which is more important from their point of view, local areas or the railway supplies?—The local areas of course because they get fresh cane.

Are these sugar factories very popular?—Yes they are very popular.

As regards the collection of the cane, does the producer himself take the same to the railway station himself?—Yes.

Who purchases these canes at the railway station? Are they agents or contractors of the factory or both?—There are agents as well as contractors. There is a factory called *Marhora* factory in my district. There are a few contractors. Most of their business is done through their own paid agents. But there are other factories such as the Siwan sugar factory, the Pachruki factory the Bhatni mill of *Nurimia* and others who have their contractors at the railway stations.

Does that not involve throwing the cane grower into the hands of these contractors?—Not necessarily.

Do these contractors ever play a ruse, by refusing to take the cane saying that they have enough supply already to meet their requirements, in order to get the prices lowered?—Very rarely the cane is refused.

Are there any unfair practices resorted to by these contractors in order to cut down the prices of the sugar growers?—You mean by a defective way-bridge, etc. No, it is very negligible.

The factory pays to the contractors a definite rate for cane, does it not?—Yes, for certain periods in the year. They began with 5 annas but last year they went up to 9 annas.

Most of the price paid goes to the grower of canes?—Yes. The contractor gets only his commission. The local cane-growers get a little more than those in the districts who take their cane to the railway stations.

So they encourage local people to take the cane direct to the factory?—Yes.

Mr. Hodge : Do they also grant advances to the sugar cultivators?—No, they do not.

Chairman : Does the cane-grower know what the factory is paying to the contractor?—Yes, he knows it.

What is there to prevent the contractors at the station from saying to the cane-growers who come sometimes from a distance of 20 miles or so that there is no possibility of their cane being taken for another fortnight or so just to try to get the prices lowered?—There is competition, there being more than one contractor representing different factories. Further, I have heard it said that these sugar factories have decided at a conference among themselves that there should not be any competition between themselves.

Is it your idea that the *raiyyat* gets a fair price for his cane?—Yes.

Professor Batheja : Do you think that he will get a fair price under the proposed combination?—If the factories exercise proper supervision then it will be effective and the cane-grower will not lose.

I take it that the proposed combination will fix the price in advance and so will that not adversely affect the producer?—There is of course some chance of the grower being adversely affected.

Cannot the cane-growers form a rival union to protect their own interests?—Yes, certainly if they see that their interests are affected.

Is the sugar industry flourishing?—Yes, certainly.

Chairman : How many factories are there in your district?—At present there are 7.

Professor Batheja : Is there scope for starting more factories in your part of the province?—Of course there is enough scope, but we find that there is lack of capital. One company is not working at present for lack of capital.

Do these sugar factories find any difficulty in raising the capital required?—I do not know.

Have you any idea how they raise the funds required by them for their working expenses?—Some of them have their own capital, others are working on a share basis and so on.

Mr. Hodge.—Do they experience any difficulty in getting the cane adequately?—There is no difficulty whatsoever.

Are these factories at present working to their fully capacity?—Yes.

Professor Batheja : What is the amount of capital invested in these sugar factories in your district?—Rs. 10 to Rs. 15 lakhs.

Chairman : So, the total capital sunk in this business will be about 1 crore of rupees?—Yes.

Professor Batheja : Have zamindars ever thought of starting sugar factories?—I know of one attempt which failed.

What was the failure due to?—Mostly to the lack of business capacity.

Mr. Hodge : Is the *gur* industry carried on with vigour at present or has it diminished because of the competition by these factories?—The *gur* industry is also going on well. As a matter of fact the cane producers find it more profitable to press their cane which fetches them a little more than selling the cane straightaway. Moreover they get fodder for their cattle.

Chairman : Is there any objection among the members of your community to taking interest on money?—Yes, there is objection.

Is it still strong in this province so far as your knowledge goes?—Yes, it is so in Bihar proper among the Muhammadan community.

Professor Batheja : Are you excluding the Kabulis?—Yes, of course.

Is that your own view when you say that the Muhammadans as a class are against accepting interest or do your friends also subscribe to your view?—That is the general view. A great majority of Mussalmans do not accept interest.

What class of Mussalmans do not accept interest?—Those who belong to the old school.

Chairman : Do the Mussalmans deposit their funds in the central co-operative banks and do they accept interest therefrom?—English educated Mussalmans have deposited their funds in the central banks and they accept interest.

Professor Batheja : What percentage of Mussalmans in this province do you think are averse to accepting interest?—I can say that about 75 per cent. of the Mussalmans would not be prepared to take interest.

Have these 75 per cent. of the population many savings?—I cannot say that.

Is this prejudice confined to people who are very poor?—I do not think so.

Mr. Hodge : There is no prejudice against borrowing, I presume?—No, certainly there is no prejudice although it is equally bad according to the Islamic law.

Then what do these Mussalmans do with their savings?—They sometimes purchase lands.

Do the zamindars do money-lending as well besides their zamindari business?—In some cases they do so.

Professor Batheja : Do they (the Mussalmans) buy postal cash certificates?—Probably very rarely.

Do they invest their monies in the post-office savings banks?—Yes, some of them do.

Then you say they are averse to even accepting interest from Government?—Yes, certainly some of them.

Do they buy Government securities?—The orthodox classes would not purchase them.

What measures would you suggest for finding openings for the funds of those Mussalmans who do not accept interest?—They can join some business. I have no suggestions to make. The only practical suggestion is that they must accept reasonable rates of interest. The Koran says that we should accept *Reba* which is interpreted to mean interest, but it really means usury.

You have suggested the desirability of opening land mortgage banks exclusively for the use of landlords and big tenants. You want them to be entirely distinct from the existing co-operative institutions?—Yes.

What will be the financing agency of these land mortgage banks?—I think the central co-operative banks could very well do that.

Is it reasonable to expect that the central co-operative banks would be able to cope with the work?—I think so, provided they could keep this business separate. They can have two departments.

Then would it not be better to have two separate banks altogether?—Yes, that might be done.

Chairman : I note that you are in favour of the land mortgage bank for the use of the big landlords and you say that the petty agriculturists could very well be served by the existing co-operative societies. You also say that it will be possible for the existing central co-operative banks to finance the land mortgage banks. Do you think it possible for the central banks to finance the land mortgage banks with the existing funds at their disposal, or would you think it better to organise separately to deal with an entirely new class of clients?—What I feel is that if the central banks are entrusted with this work, in the long run a sort of fellow feeling would be created in the minds of the landlords and the small agriculturists, which will ultimately pave the way for a better understanding between them.

Do you think that you will be able to get the right kind of directorate to manage the business of short-term credit for the small agriculturist as well as long-term credit for the big landholders and people of that kind?—Even at present we do not get enough zealous workers to serve as directors of co-operative banks and the difficulty will be experienced all the more when we search for directors for the land mortgage banks. So it is I suggest that we can have two working committees in the central co-operative bank to deal with this business separately from the present business.

Even then the working committees might not agree, each committee requiring funds at the expense of the other?—Before forming the committees a budget estimate will have to be framed to which these committees can be made to conform.

Mr. Hodge : Do you think the ordinary central co-operative bank can supply for land mortgage bank a sum involving about Rs. 2 or Rs. 3 lakhs?—It is possible to raise capital by issuing debentures.

And you know that the landlords are sometimes asking for long period loans for periods of 20 and 25 years?—In all these matters we have to proceed very cautiously. But on the whole I believe that the land mortgage banks would prove very beneficial.

You think in the Siwan subdivision especially there in scope for the organisation of a land mortgage bank in the interests of the zamindars even if it be an organisation quite apart from the co-operative movement?—Yes.

Professor Batheja : Why do you not try to lower the rates of interest on deposits received by the central co-operative banks?—We are doing it at the suggestion of the Registrar of Co-operative Societies and on our own initiative. Formerly it was 8 per cent. but now it is only 6 per cent.

Mr. Hodge : What is the usual period for fixed deposits?—From one to three years.

Professor Batheja : Can you still further lower the rate of interest on fixed deposits?—Yes, if we can afford it.

Is not the success of the co-operative banks mainly due to the belief that Government is supporting them?—Yes.

Chairman : You have suggested that Government should advance long-term loans for large projects of land improvement. Have you any definite projects in view in the Saran district?—Yes, for the improvement and opening up of the Saran canal which was silted up long time ago. The subject has been brought to the notice of the local Legislative Council several times in vain.

Was not the Government refusal due to the fact that expert advisers of Government in the Engineering department found that it was not a paying proposition?—That might be, but I am sure if the Government grants the loan and the canal is worked up on a co-operative basis, it is bound to prove a success. All that I ask for is a grant of a loan to a special co-operative canal society on a lower rate of interest, that is all.

Why do you ask for a lower rate of interest than at which the Government borrow themselves?—I do not mean that. I only ask Government to grant the loan just in the same manner as they do to the district boards and municipalities.

But supposing the canal proved a failure, then what will happen?—I cannot understand that question.

You know the Orissa canals have always proved a failure judged purely as a business proposition?—It must only be due to the defective soil.

It was too expensive to make it a paying proposition?—I do not know about that.

Do you think the directors of the central co-operative banks are in a better position to judge the engineering problems than the Government's professional advisers?—I do not say that.

Is there a great demand for irrigation in the province?—Certainly, yes.

Do you think that in the next ten years ten lakhs of rupees could be spent in sinking wells?—Wells alone would not do. I stick to canals also.

But canals can touch only a small part of the district?—I do not think so.

Are there any other methods?—Wells can also be sunk.

You speak about the prejudice against the indigenous banks and attribute it to their unbusinesslike methods. Our investigations go to show that the indigenous bankers are very businesslike. Do you mean that their dealings with their clients are unfair?—Yes.

What classes you are thinking of?—I am talking of the ordinary *mahajans* in the towns.

Then you say that these people do not finance agriculture properly. Why do you say that?—To give you an instance—suppose I deposit Rs. 10,000 with an indigenous banker for which he gives me a chit in acknowledging receipt of the same. The next moment he advances the same money to an undeserving pauper with the result that the man who is in real need does not get the money. All this is due to their unbusinesslike methods. The members of the public have very little faith in such banks because of their unstable financial position too.

I take it that instead of having a standard rule they do business in different ways with different classes of people?—Yes.

**Rai Sahib BIJOY KUMAR ROY, B.L., Honorary Organiser,
Co-operative Societies, Banka.**

Replies to the Questionnaire.

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. (a) For expenses during cultivation.—

(1) From local *mahajans* at high rate of interest. They give generally seeds at *dobra*. The seeds are bad generally. When they give money, they get a handnote or bond for a higher amount than they actually give on account of the Usurious Loans Act. This practice has sprung up after the introduction of the Act. The interest they charge on such bonds is generally 25 to 37½ per cent. per annum.

(2) *Takavi* from zamindars at *dobra* system.

(3) In famine times, *takavi* from Government at 6 per cent. per annum.

(4) From co-operative credit societies at nearly 14 per cent.

(b) For capital and permanent improvements. The same as above—specially, generally rather from Government.

(c) For other special needs, e.g., failure of monsoon. The same as above.

Generally payable at the end of a year, or a date two or three years hence is fixed. If he goes on paying interest *mahajan* does not demand the principal.

The *mahajans* practise several kinds of fraud, viz., do not endorse payment on the back of the bond and on slight provocation, they sue and thereby ruin the tenant, who has to defend at enormous cost in Civil Courts.

Nature of security.—(1) Their holding; (2) ornaments; (3) standing crop, which they sell generally; (4) sell their cattle; and (5) agree to work as labourer on only living wages.

Government seldom finance for agricultural needs except during famine or scarcity or drought.

Co-operative banks finance very cautiously and do not give them generally all that they need unless their assets are good.

Fertilizer Companies, such as Imperial Chemical Industries, formerly *Brunner Mond*, Muzaffarpur, give manures, generally at three months' credit without any interest. Three months can be increased to six to eight months. I have personal knowledge their dealings are very fair. They give a propagandist, free. The tenants are generally bewildered for finance—one clever man finds out an agency and the rest follow him. I can give no estimate of the total capital required for various purposes.

There is no co-ordination among various credit agencies. There is certainly scope for improving. सन्तुष्ट नयते

2. Present method of marketing :—

(a) They take their produce to the nearest *hat* and are compelled to sell at the market rate.

(b) They have to give to *mahajans* at rates dictated by them.

(c) To private individuals.

Pools and co-operative sale societies may be started with success in marketing produce. Credit facility—either co-operative or Government.

3. In Banka subdivision, *bari* lands, i.e., lands used for growing *bhadai* or *chaila* crops. Rs. 10 to Rs. 30 per bigha, i.e., Rs. 15 to Rs. 45 per acre. For paddy, wheat and sugarcane fields, Rs. 150 to Rs. 500 per acre.

The value is affected by (1) rental, (2) irrigation facilities, and (3) neighbourhood of railways.

(a) Value of land in Government auction for non-payment of revenue—Uncertain, generally cheap.

(b) Value.—Sale by court decree—Cheap, generally up to decree money at forced sales.

(c) Private negotiation—A reasonable price is had.

4. There is no legal impediment to mortgage of land, etc. There are no land mortgage banks or any other bank providing long-term loans.

5. In order to devise measures for the increase of credit facilities to the agricultural classes it is necessary to ascertain accurately the indebtedness of these classes.

These debts are largely due to (2) co-operative societies and (1) local *mahajans*.

Rates of interest vary from 18 per cent. per annum to 50 per cent. per annum. The methods used for calculating interest are not one and same, but are not accurate. They enforce payment by civil suit.

No, large number of people are far from being efficient farmers. Large number are turned into *tenants for a period*, and *tenants at will* through the process of the enforcement of old debts. Landed property is passing into the hands of the creditors.

Yes, it takes away from the actual cultivator the incentive to produce more and in efficient and better manner.

6. The number of small subsidiary industries in our area are not worth mentioning.

(1) They generally sell and purchase with a cart (ox-cart) of paddy or other commodity in one *hat* at a cheaper price and sell at another *hat* at a higher value.

(2) They make *khura* or rice out of paddy and sell.

(3) Oilmen purchase mustard and press into oil and then sell.

(4) Fly shuttles and hand looms have been introduced among *tantis* or *momins*.

(5) Eri-culture.

(6) *Gur*-making.

(7) Hand-spinning—not much.

I can suggest starting eri-culture societies, by which eri-silk will be produced and yarn woven, dyed, etc.

Supplemental work for a farmer during off-season.

(a) Any business or trade.

(b) Work in tea gardens or coalfields.

(c) Buying things like tobacco, etc., from Purnea and other cheap places and selling in places where the commodity is dear.

Source of capital.—(1) Either co-operative bank or (2) Government.

7. There is no relationship at all. Co-operative societies give short-term loans and its difficulty is the poor assets of the borrower. Co-operative societies do not easily grant long-term loans.

Yes. It is desirable to grant financial concessions in order to stimulate the growth of co-operative societies or movement—exemption from income-tax and other facilities may be necessary.

Good honorary workers are necessary, who will be helped by Government officials.

II. INDIGENOUS BANKING.

My ideas about these banks are only hearsay—and therefore not reliable. So I will answer after I study this.

III. INVESTMENT HABITS AND ATTRACTION OF CAPITAL.

There are really no good and substantial institutions in existence for encouraging savings and investment habits.

No, only savings bank—postal, which is not attractive.

People in India often invest their capital in silver and gold by making ornaments. This is a woman's *stridhan*. In the event of a sudden want of money ornaments can be pledged or sold and money obtained. There are delays and difficulties in transferring or mortgaging landed property.

Postal cash certificates are not popular. It is rather unknown. It was only known during war time.

Only the upper classes, ministerial officers, deposit in savings banks.

Savings banks afford facilities but interest is very small.

Generally speaking, the tenants are all indebted heavily, as soon as money comes in they have to pay landlord, *mahajan* and co-operative societies, for marriages and *sradh*, etc.

They often bury underground or keep money in heaps of paddy or concealed somewhere. Farmers seldom lend to fellow agriculturists except big ones on rates at which money is lent by a *bania* or a *mahajan*.

Cheque-habit is not known among agriculturists. Only the upper classes use cheque.

Yes. I support this view that banking and investment habit is of very slow growth. The cause is illiteracy.

Oral Evidence.

Chairman : You are one of the honorary organisers of co-operative societies in the Banka district in Bhagalpur?—Yes, I have been a director for the last fifteen years.

You say, one of the means by which the agriculturist is financed is *takavi* from zamindars?—Yes, zamindars finance their cultivators sometimes by giving them paddy seedlings and they realise it back again with cent per cent. interest.

Is that especially the case for seedlings alone?—Yes, that is so.

Am I right in saying that the Government decides upon the grant of *takavi* loans at the proper time?—Yes.

Is it your experience that Government *takavi* is given in sufficiently large quantities especially when there is the failure of monsoons, etc?—Yes, it is properly distributed. Mostly the Subdivisional Officers make the recommendations.

Have you heard any complaints against the distribution of such loans?—No, none at all.

Do the *raiya*s make any complaint against the agency employed by Government for the realisation of the *takavi* loans?—I have not heard of any complaints whatsoever.

Mr. Hodge : Are the *takavi* loans popular among the cultivators?—Yes.

Could you give me an idea of the amount advanced last year in the Banka subdivision?—About Rs. 2 lakhs.

Are there any instances where these loans have been given through the agency of the co-operative societies?—No, not at all. On the other hand, at the instance of the directors of the co-operative societies, Government has ruled that no *takavi* should be given to a member of any co-operative society.

Then what happens to the members of the co-operative societies?—On the recommendation of the secretary of the co-operative society, members of these societies can take loans from the co-operative central banks on paying 12½ per cent. interest. Those who receive Government loans need pay only interest at the rate of 6½ per cent.

You have actually found that in the villages in the Banka district members of the co-operative society are excluded when Government gives out *takavi* loans?—Yes, that is so. Government *takavi* is given only to people who are not members of any co-operative society.

Professor Batheja : You say that there is now in most cases a custom of demanding a handnote or bond for a higher amount than for the actual amount of money advanced after the introduction of the Usurious Loans Act. Is it very common in Banka?—Yes, it is very common in Banka.

So then the Usurious Loans Act has been entirely evaded in this fashion?—Yes, that is so. I know of several instances which have come to my personal notice.

Chairman : The practice of taking a handnote for more than the actual amount advanced is, I hope, limited to cases of very great urgency and to people who are fools?—Mostly, yes.

Professor Batheja : What is the practice of the courts? Do they lower the rates of interests?—Yes, generally they do reduce the interest to 18 per cent. and sometimes to 25 per cent.

Chairman : Would you support a proposal that the average rate of interest allowable should be laid down and that any rate charged above that should be considered usurious unless the lender can prove special circumstances?—I think that will be a good provision.

Professor Batheja : Would that tend to decrease the number of malpractices which, you say, are now in vogue in trying to evade the Usurious Loans Act?—Yes, to some extent it will be useful. My views about the malpractices are shared in common by the other members of the bar at Banka. They have told me so several times.

Mr. Hodge : Even if you restrict the rate of interest, such abuses will follow. Do you not think so?—Yes, you are right, but there are chances of its diminution.

Chairman : Is there any competition among the money-lenders for placing their money in your part of the province?—I do not think there is any.

Is there plenty of money wanting investment?—I have found that there are many people who want to borrow and there are fewer people who want to lend.

Do the co-operative banks find it possible to grant loans as freely as they can or do they experience any difficulty in placing their money?—They find some difficulty in advancing to people who have not many assets.

So there is no difficulty about lack of funds at all?—None at all.

Fertilizer companies operate largely in the Banka subdivision?—They have begun to function only since last year. During this period they have developed their business for about 500 maunds and in my opinion the business will be very largely increased.

Can you give us an estimate how the business will increase?—I am sure that in the course of two or three years they will be able to sell about 3,000 maunds, costing about a quarter of a lakh of rupees in the Banka subdivision alone. That is my firm conviction.

Mr. Hodge : Referring to marketing, you say that the producers are compelled to sell at the market rates. Is there any disadvantage in that?—I do not think so. There is no other alternative to it at all.

R. B. Dhandhanja : Do the courts at Banka allow interest on suits during the pendency of the same?—Yes, generally they do in the case of long-term suits.

How long does it take for more important money suits to be decided upon?—Say, from six months to a year, and the interest is usually allowed in such cases.

Chairman : Our evidence at Bhagalpur went to show that they are not allowed interest even in the case of suits pending for about two

years?—All depends upon the representation which the lawyer makes to the court. If the lawyer makes the representation and the court is convinced that the money had been unnecessarily locked up, then they allow interest.

R. B. Dhandhania : Is there any harassment by *mahajans* in realising their dues through the courts or not?—Yes, the agriculturists find it a great hardship if these *mahajans* go to the courts to realise their dues.

Chairman : You say that a large number of people are being turned into tenants at will or for a period through the process of enforcement of old debts?—The ordinary practice of a *mahajan* is to make the tenant a great debtor through the process of *sudhbharna*, and after a few years the man is turned out when he finds it impossible to pay or made a period tenant.

You say that people in India often invest their capital in silver and gold by making ornaments and that is a woman's *stridhan*. Do you support that practice?—Personally I do not but that is the prevailing practice.

Is there any difficulty about a woman's *stridhan* being set aside in the form of an interest bearing security, e.g., post-office savings bank accounts opened in her name, etc.?—There is no difficulty at all at least legally.

Professor Batheja : Are you quite sure about it?—Yes.

In the case of ornaments a woman cannot be deprived of the same by a court of law even in bankruptcy proceedings. Is that right?—Yes.

Could you suggest some other means of making provision for woman?—Now there is the practice of people purchasing landed property in favour of their wives.

Is the practice of purchasing landed property for the wife considered *stridhan*?—Yes.

Then are not Government securities purchased by the husband for the sake of his wife considered her property or *stridhan*?—Of course there are conflicting decisions by the courts in these matters.

Mr. Hodge : Is the pledging of ornaments carried on to a large extent?—Especially in Bengali families women have ornaments generally worth Rs. 3,000 to Rs. 10,000 sometimes. But the Bihar and Orissa women generally wear only silver ornaments. Of course these ornaments are sometimes pledged when they want to raise money.

Chairman : You say that tenants often bury their wealth underground or keep them in heaps of paddy or concealed somewhere. Is that practice diminishing at all?—Of course it is diminishing to some extent.

You believe that substantial cultivators in your areas still keep their money underground?—Yes, and there are also several instances of robberies and dacoities having taken place of such hidden wealth.

Professor Batheja : Are there no facilities for depositing them in safe places?—No.

Do you know where the people generally deposit their valuables when they go on pilgrimage?—No, I do not know.

Are you not aware of the practice of any of your friends in the vicinity?—I know of some Bengali friends of mine who deposit them in the Bank treasuries through friendship with the bank officials who help them in doing so.

Do you think that if a system for deposit is devised it will be good?—Oh yes, certainly.

Can co-operative societies and post-offices be asked to do this work?—Yes, they could be asked to do this work.

Is very large pawning done in your part of the province?—Yes, in times of scarcity.

Mr. Hodge: With whom are these ornaments pledged?—With the *mahajans*.

Professor Batheja: Are there any abuses by the *mahajans* in the performance of this transaction?—Yes.

Does it often happen that the pledged articles are never returned?—Not often, but sometimes it is the case.

Would you advocate the opening of some pawn shops controlled by the State?—That would be best if that could be done.

Do you think that the post-offices and co-operative banks could do this?—Yes.

Mr. Hodge: Do you favour the establishment of land mortgage banks especially in the interests of the landlords and the other substantial agriculturists?—Yes.

Chairman: Would you organise them quite separately from the co-operative central banks or you would leave it to the latter to perform the duties of financing long-term loans on land mortgage?—I would advocate the starting of the land mortgage banks independently of the central banks, as there is a definite conflict of interest between the zamindars and the petty agriculturists.

Professor Batheja: Would you have land mortgage banks for the benefit of the small cultivator as well?—No, not the small agriculturists. They will be served by the existing co-operative societies.

Do you think the co-operative movement meets all the financial needs of the agriculturists?—Yes, to a large extent.

What percentage of people have come within the net of the co-operative movement, say in Banka?—The percentage is very small. There are only about 6,000 members out of a total population of about 4 to 5 lakhs.

Does the *mahajan* finance the requirements of the rest of the agriculturists who have not come within the co-operative movement?—Yes, they always do it.

So under the present state of affairs the *mahajan*, you think, cannot be eliminated from the village society so far as the financial needs are concerned?—No, certainly not.

Then you would recognise the need for improving the *mahajans*, their system of money-lending, etc.?—Yes, it would be better if that could be done.

Chairman : What sort of control on behalf of Government would you suggest for regulating the activities of the *mahajans*?—I have not thought over the matter.

Do *mahajans* serve the needs of the agriculturists more efficiently than the co-operative societies?—In a way, yes. The former will be able to lend out money even at very short notice, while the latter will take a long time in arriving at a decision.

What is the proportion of the loan that the agriculturist requires at short notice?—Such emergencies are very small indeed.

Professor Batheja : If the requirements at short notice are very small, then how is it that the large bulk of the agriculturists go to the *mahajans* for their financial requirements?—Because only very few people resort to the co-operative societies.

Are you in favour of opening current accounts by the post-offices?—Yes, that would be very useful and would help the people very much.



सत्यमेव जयते

Tuesday, November 26, 1929

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*). | Mr. J. Z. HODGE.

Mr. BATHEJA. | Rai Bahadur BANSIDHAR DHAN DHANIA.

**Mr. DURGA DAS SONDHAI, Secretary, Co-operative Federation,
Bihar and Orissa.**

Replies to the Questionnaire.

1. The agriculturists obtain finance generally from the *mahajan*. *Mahajans* in different places are given different names, and the word *mahajan* as used by me includes all those who carry on business of lending money wholly, partly or as an investment of their surplus. Members of co-operative societies obtain their finances from their societies. The *mahajan* or the co-operative society finances for cultivation or at times of failure of monsoon for payment of land revenue and for ceremonial occasions. They also advance for capital and permanent improvements, if they consider the security sufficient and their own finances permit. The *mahajan* when considering the security takes note of the value of the borrower's property and the extent of his existing indebtedness, besides his honesty of purpose and his willingness to do his best for the repayment. The rates of interest vary from 12 per cent. per annum to 75 per cent. per annum according to the area, the financiers, the borrower and the need of the borrower.

Companies' mechanical fertilizers only sell on credit to well-known big agriculturists. They do not reach at all the petty cultivators. Merchants and dealers advance on the prospect of crops and force the borrowers to sell the produce to them at cheap rates. Professional money-lenders as they exist in the villages also carry on sometimes the business of merchants and dealers. Either they buy crops at a cheap rate in repayment or they get free or low paid service in addition to the interest. There are very few indigenous banks and bankers existing in the villages. Those that carry on business in the towns are of help only to the well-to-do people and not to the petty agriculturists. It is only the co-operative banks through their co-operative societies that are of real assistance to the poor agriculturists. The joint stock banks, as a rule, exist in

big towns and help mainly the merchant classes. The Imperial Bank of India is no better, for it has no direct connection with the petty agriculturists. Whatever help it renders is indirect for it finances the merchants and dealers to some extent, whose advances to the petty agriculturists always affect them adversely. Thus so far as the petty agriculturists are concerned the Imperial Bank of India contributes more to their ruin than to any improvement of their conditions. The Imperial Bank lends out against easily convertible securities or to approved customers. The petty agriculturist residing in a far away village is too poor to possess any such security, his wants being very low, he cannot venture to come to the Imperial Bank for a loan of Rs. 100 or Rs. 150 nor is he known to or has any personal influence over the European agents of the branch offices of the bank. The *takavi* loans are advanced by Government in times of distress only, therefore these loans cannot satisfy all the needs of the agriculturists. Moreover the Government procedure is so cumbrous that it is not feasible to extend financing by Government directly. The only method in which Government could help the petty agriculturists is to place money freely at the disposal of the co-operative banks, which has not yet been done in this Province. I am unable to give a fairly correct estimate of the total amount required but I can say that it would be very large. At present there does not exist any co-ordination among the various credit agencies. The system followed at present by all money-lending agencies except the co-operative societies is one of exploitation of the petty and poor agriculturists. It would be beyond the scope of this note to mention the defects in detail. The only feasible remedy that strikes me is the supplying of cheaper money to the co-operative banks to the extent of their full requirements in order to enable them to lend out at cheaper rates. This will draw almost all agriculturists, small and big, into the co-operative society and will tend to place the financial status of the society on a firmer footing. At present only those people who join the society are almost on the verge of insolvency and are illiterate or ignorant.

2. The marketing of the principal crops takes place through three or four middlemen and the possibilities of co-operative efforts in the marketing of produce are very hopeful and are fraught with huge potentialities. Such co-operative efforts will not only require a large amount of money to cover the produce purchased or held in deposit but will further require proper arrangements for the speedy and cheap transit of the produce collected to the central sale places. Any co-operative effort to be successful will require a network of co-operative societies in defined areas with a sort of expert to control them and to have a knowledge of the rates prevalent in the big export centres from day to day. As long as the percentage of literacy and education remains below 50 per cent. of the population none other than co-operative efforts on co-operative lines can ensure any benefit.

Hundis and bills of exchange as a form of temporary credit are used to a limited extent amongst the merchant classes of the towns.

The use of such bills, if made extensive, would facilitate credit to a large extent, for instance, through propaganda and facilities offered by various types of banks instead of through simply buying on credit which is the prevalent custom, people could resort to immediate payment. By bills maturing in future, the credit facility of the seller could be much enhanced, for the seller could discount those bills when in need. At present the sale on credit is extensive and the payment mostly based on the convenience of the buyers. Even at present various markets allow different but definite number of days for settlement of payments of cash transactions. If immediate payment is made discount is allowed. The seller under the present system is handicapped for want of capital during the time of grace thus allowed. If immediate settlement could be made by bills the seller would always be in a better financial position. The difficulties in the use of these instruments are (1) their duty, (2) the custom prevalent, (3) the proper understanding of their use. Government could assist by removing the duty and by propaganda even through the means of primary schools (for the generation growing would catch it up in their own time; a few lines in their text-books could very well be incorporated) and by setting up licensed writers of these bills to ensure the indication of genuineness to the organised banks who will ultimately discount them.

3. Sale by private negotiation always fetches more price as the buyer can ascertain the title which he would be getting. Sale by court decree does not fetch proper price as the prospective purchaser has no proper and easy means to find out the title, and the encumbrances on the property under sale. In the first place the likely purchasers are always those who live near about the place and a publication of sale notice in the village itself is in practice always defective and somehow or other outsiders in general are not informed. Secondly, the looking up of the record-of-rights is an expensive and cumbrous affair. Thirdly, looking up the encumbrances is another expensive and tedious task. Fourthly, one can never know, if the land has already been attached in any other suit or is subject to rent decree or has been relinquished long before the institution of the suit in the decree of which it is being sold. Institution of a suit may be prohibitive to alienation (even this can be settled by tedious litigation). Relinquishment stands on a different footing. All these factors tend to depreciate the price at the sale by court decree. Sale for non-payment of revenue is on a better footing, because Government under the laws has protected its purchase to some extent. But this operates only in the case of sale for arrears of revenue and not road cess, etc.

4. In Bihar there is no legal impediment to mortgage but some restrictive measures exist in Chota Nagpur which depreciates the value of lands. No land mortgage banks exist in this Province and no banking institution has taken up long-term credit. Their existence would materially benefit the landlords and tenants but landlords and tenants' banks should be separately organised otherwise the tenants would be precluded from deriving any appreciable advantage. The working

capital of such mortgage banks would be impossible to raise by deposits in the beginning. Funds from central institution can be useful but the central institution must raise its capital from somewhere and this can only be done by debenture bonds in the beginning, i.e., at least for a couple of decades. I would suggest debenture bonds for central institutions and financing of subsidiary institutions by the central ones.

As the money will be invested in lands whose depreciation can only be due to lack of effort or constant drought or constant inundation, depreciation will only be temporary as all these causes are removable when backed by Government or a Government institution. Such causes can affect only individual cases or particular areas. I have no hesitation in saying that Government should guarantee both principal and interest. The fear of Government loss is very meagre and its consideration should not weigh at all with the Government for the Government raises funds by taxation for the purpose of constructive programme, such as roads, education, medical and sanitation, etc. The improvement of agricultural classes which form a large proportion of the population of India, will be for the masses and the public in general and any remote losses which the Government may have to write off will be but another form or purpose of taxation.

I have already said that agricultural mortgage banks should raise money on the Government guarantee and the banks should only keep a bare margin to cover their expenses. The banks should be organised on the co-operative lines. Any other form of long-term credit would fail under the present-day national wealth of India.

Improvement in the record-of-rights and title of ownership is long overdue and should be simplified at once. Following is the list of difficulties which arise. For this purpose as applied to the Province of Bihar I deal under separate heads :—

- (i) *Landlord titles*.—The record of this is not so difficult to look into; but the ascertainment of encumbrances is expensive and tedious. Encumbrances by mortgage can be ascertained but encumbrances arising out of attachments and pending suits and by civil court decree and wills, for instance, properties specified to ensure maintenance of family members can never be ascertained by reference unless they are learnt through private means.
- (ii) *Tenants*.—All the difficulties mentioned above in addition to the fact that the record-of-right is revised for 30 to 40 years. The changes do take place by exchange oral or written with the *Malik* and with outsiders relinquishment and re-settlement changes by sale and rent decrees and re-settlement. All these changes are not recorded anywhere and it is not possible to ascertain from the rent receipts. These do not mention *Khasra* numbers by which the plots could be identified or the arrears of rent could be ascertained from year to year and the landlord is not bound to disclose these.

I would suggest that the record of tenant's right should be a continuous feature of the administration even by levy of small fee to cover the extra establishment required or laws should be framed to force the landlords to declare the land held under a receipt and to forego the right of dispute after such declaration. I entirely agree that the process of foreclosure of sale by the mortgage banks should be simplified. Reduction in the cost of reference to records and process at law should not be only for the defaulters (it would be putting a premium on default) but it should be general and for the general public. In the first place the bank will require to meet a part of this cost before advancing the money and in the second place such reduction will enhance the credit of the borrowers even with the *mahajan* for the extent of credit on a given security depends about its certainty and definiteness and the margin of the capitalist has not to keep covered for an increased amount by interest and the cost of litigation in case of default.

5. It is very difficult to arrive at an estimate of the indebtedness of the agricultural class. Enquiries can be made from the Registration offices as to the money bonds, mortgage bonds and bonds registered within a specified period of years. This will give an approximate idea of the indebtedness and the figure so obtained is multiplied by three. My estimate is that only about one-third of the indebtedness is registered. The rest is always on handnotes, *bahi khata*s, pledge of ornaments, advances for sale of crop when ready and oral debts which is called *Hathphair*.

Rates of interest vary from 12 per cent. to 75 per cent. depending on such factors as necessity of investment, necessity of demand, honesty and willingness to pay on the part of the borrower, his immoveable and moveable effects, reputation of status, his caste and the length of his connection with the *mahajan*. Further it varies on the number of *mahajans* in the locality and the extent of exploitation by other means to which the borrower can be subjected. Petty cultivators of lower classes to a great extent are losing their lands on account of indebtedness and these lands are passing to the creditors. This is one of the reasons that the landlords or the big tenants have combined money-lending in the village with their legitimate avocation. The small holder loses the right to the land but almost always cultivates it on sufferance, on the half and half which takes away the incentive to produce more.

6. No appreciable subsidiary industry exists in this Province. Impetus can be given to some of those enumerated in the question but caste prejudices, lack of capital and competition of mills do not leave any choice. The lower castes who put their hands to the tilling of lands, in my opinion, do require side industry. They lack cattle and till their lands with kudalies. They work as labourers for better classes and when the demand for labour is less they go outside for work. It is in many cases not only the lack of work but lack of will

as well which keeps them idle. But it is mainly those classes who on account of caste prejudices do not put their hands to tilling or ploughing that require side industries. Any attempt to raise the standard of living except as for better food, more clothing and better sanitation would do them an injury, unless the stable side of income that is land should be made more productive to meet the necessary increase of expenses. Better income is sure to raise the standard itself.

7. The relation between the co-operative banks and the Imperial, the joint stock and indigenous banks is almost nil except the granting of cash credit to a very limited extent to the Provincial Co-operative Bank by the Imperial Bank. They offer no facility to the co-operative banks, attempt to obtain financial aid from them either meets with a refusal or is hedged in by insurmountable conditions. Co-operative banks can borrow from them like any other individual on Government or semi-Government securities but the co-operative banks cannot furnish such securities as they have not an excess of funds nor can they invest outside their legitimate business. At times the other banks insist on individual security of the directors even for small temporary advances. The co-operative societies are labouring under great difficulty for securing capital. Long-term capital can only be had by share capital or reserve funds which is always a slow growth. Short-term capital does not serve their purpose. They are borrowing on deposits for one to three years' term and paying large rate of interest for two or three years' deposits. Naturally they have to offer a higher rate than that offered by the Government itself which is about 5 per cent. on securities which are convertible into cash at will and on which money can be raised very easily. The Imperial Bank is paying a lower rate of interest than the Government but it can command its rates owing to its financial position. This will show that the co-operative banks have simply to depend on their own capital and the deposits without any financial aid from other banking institutions, and to meet their necessities they are obliged to offer higher rates of interest on deposits which fact acts against them with the scrutinising world of depositors and gives a handle to the other banks to use against the co-operative banks when canvassing for deposits. The large money holders in this Province either invest loans to individuals against landed property or deposit in the very big banks in or outside the Province simply because their income from interest is a side income and they never care to study the soundness of the security offered by the co-operative banks. There is a keen competition by the Joint Stock Bank and the Imperial Bank wherever they exist alongside the co-operative banks. The competition is not in the direction of investment but in the direction of securing deposits. Further the supervision cost which every co-operative bank has got to provide for the supervision of the borrowing societies comes to about $2\frac{1}{2}$ per cent. or more, as they work in a limited area and have to deal with very petty borrowers. To keep up the confidence of the public and the depositors they must show appreciable profits at the end of the year which requires another margin of 1 to

2 per cent. Therefore to meet all these charges they are obliged to keep a margin of about 6 per cent. over their borrowing rates. Hence the money does not reach the actual cultivator at a rate less than 14 to 15 per cent. This Province through the co-operative movement could absorb several crores more if money could reach the cultivator between 9 to 12 per cent. In other provinces Government bears the larger portion of the cost of supervision of the primary societies. Besides some provinces are blessed with industry which increases their provincial wealth and more money is available there for deposits and at lower rates than in this Province. The wealth derived from minerals of this Province chiefly goes beyond this Province.

There is a great necessity in this Province for the possibility and desirability of granting financial concession in order to stimulate the growth of the co-operative movement. Without this movement cannot expand but will stagnate. The co-operative movement has succeeded in reducing the rates charged by the *mahajans* to the agriculturists and has arrived at a stage where unless the co-operative rate is further reduced the members may find themselves back into the clutches of *mahajans* for they are carrying on competition with the co-operative societies with a view to stop its working and to re-establish their own lost business. All the depositors in co-operative banks are either professional people or men in service or zamindars which would show that the *mahajan's* money is not yet lying idle on their hands. I do not advocate the abolition of *mahajans* for they too are serving a very necessary purpose but I do advocate that the competition of co-operative societies should keep them to reasonable rates and honest methods. Therefore the financing of co-operative movement with cheaper money is essential to their growth. Their financial concessions should take the form of making co-operative debentures popular and placing them on the same footing as semi-Government securities. Further Government can guarantee under proper condition and secure to the movement larger overdrafts with the Imperial Bank and at cheaper rates of interest. The Government can use its own deposits in the Imperial Bank to further the interest of the co-operative movement. They can lend out the money as suggested above or a fixed loan on much cheaper rate of interest. Government money is helping the industrialists and the merchants through the Imperial Bank which merchants directly or indirectly are exploiting the agriculturists by dictating the rates of crops at which they would buy in a way that it reflects to their own credit.

II. INDIGENOUS BANKING.

1. To understand it properly one should distinguish clearly the difference between indigenous bank or banking on the one hand and mere money-lender on the other. Function of the indigenous bank or banker is to lend out money with the object of making something by way of interest, to earn something by exchange and by way of commission. Some of them receive deposits and all of them discount *hundis*.

They never lend out money on mortgage unless in course of time they are obliged to secure themselves from expected defaulters.

2. They finance trade and industry generally and agriculture very much less in comparison. They advance loan to traders, discount their bills, arrange remittances for them and pledge their goods.

3. They invest their own capital, very few of them receive deposits nowadays. Also the depositors have more faith in the company banks and the registered banks. Some houses still raise money in time of need on their own *hundis* discounted at the banks or in the market. Their expenses are always very small and their credit depends on frugal living and small expenditure in the running of their business. The proprietors themselves carry on the business. These indigenous bankers have relation amongst themselves in different towns for arranging remittances but they have no relation with joint stock banks or co-operative banks. The indigenous bankers are gradually going out of market. The deposit and exchange business has diverted to the corporate banks and small savings go to the post office and the income that they can derive now from the investment of their own capital has dwindled down. The only thriving bankers in this part of the Province are amongst the Marwaris and they are mostly communal.

4. Indigenous bankers grant loans mostly on *bahi khatas* and a sort of cash credit and *hundis*. When they are in need of funds they issue their own *hundis*. Deposits where they are received usually carry a rate of 5-13-0 or 6 per cent. per annum; but they are always withdrawable after notice though this condition is not strictly observed.

5. The agricultural community usually deal with money-lenders and not with the indigenous banker. Money-lender's rate of interest is never less than 12 per cent., usually at 24 and at times 36 or more, while the indigenous banker who mainly exists in the town does not earn more than 8 to 9 per cent. on average for he deals in short-term loans and has to abide by the market rates. Better organisation of the bankers will not in my opinion tend to lower the rate of interest. It is more capital in the market that would do this. Reduction of rates will confer an all-round benefit on the agricultural community. His resources will increase and he will get better price for his production, which will better his condition all round.

6. There is no prejudice against the indigenous bankers and their business is conducted on sound lines. It is money-lender who requires looking after as he combines other trade or commerce with his money-lending. It gives him an opportunity of exploitations.

7. The indigenous bankers could serve the community to a great deal if they could create the same confidence in themselves as the other banks. Declaration of such a business with periodical publication of their audited assets and liabilities and financial help could improve them to some extent.

8. If a bank for the improvement of an indigenous banker were established its clientele should be restricted only to the declared indigenous bankers.

9. I do not think any appreciable amount of money remains idle in the hands of an indigenous banker. Money is flowing to the provincial capital or to the trade centre owing to the canvassing of the joint stock bank for deposits and due to greater confidence of the general educated public in such banks by themselves and influence created by such persons.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

The habit of the people of India to invest in silver and gold is due to following causes :—

(1) It was the safest method of hoarding when paper currency was not known. Joint stock banks did not exist. Government was weak, times turbulent, life and property unsafe. The indigenous banker of those times was the first victim of the dacoits, robbers and the rulers. People did not want to leave other money with insecure people. That habit is still lingering.

(2) Gold and silver can be easily pledged at all times and at all places especially when credit facilities are so scarce.

2. Postal cash certificates and savings banks afford all possible facilities to the public. It is the educated class who resort to such investments. With other classes, similarity of signature is stumbling block for all the business is carried on in English and not in vernacular.

Government is carrying on a strong and successful competition with other banking institutions. It would reflect to the credit of the Government if any feasible scheme could be evolved to reinvest the money so withdrawn in the same locality.

3. Facility for the purchase and sale of Government security reaches only the very few and even the educated classes find difficulty in their transaction unless they have some banker and brokers to advise them. The code of irregularities in endorsement make the people shy in handling them. I would suggest that the postal cash certificates be also made negotiable or convertible into cash at the post-offices on a stationary rate of interest and not on a sliding rate.

People in the mufassal on the sale of their produce have very little to spare after the payment of their debts and purchase of cloth and cattle. Generally whatever they have got left they hoard it in the house or invest in ornaments.

4. Cheques are used by the English-educated people chiefly. Banks do sometimes extend the privilege of using cheques to vernacular-knowing persons but in very few cases. Abolition of stamp duty has made it more popular. Payment by cheque to servants can only be enforced when banking facilities are provided in every town. In my opinion the business of all banks should be in the provincial script, their balance sheets and reports, etc., bilingual one of them being English.

5. Banking investment habit in India is of slow growth, because it has reached so few people in the towns only and its business is carried on in a foreign language. Advent of corporate banks has broken up the indigenous bankers and people have not got accustomed to the new system. Propaganda of Government always reaches the people of the town and never to villages. I would suggest the remodeling of the text-books of the village schools to popularise banking habits. The opening of the new branches of the Imperial Bank has certainly withdrawn the money from the petty traders. It has drawn the big deposits and is financing only the big merchants. What I find at present is that the money does not reach the petty agriculturists except when they are exploited.

Additional Questions.

1. Yes, people are backward in the banking activity, because (i) there is industrial and commercial activity. (ii) The people are of such litigious habits that they in their own term are afraid of this habit in the others. Therefore they can never trust their money in the hands of others. (iii) Money in surplus is in the hands of comparatively very few and the lower and the middle classes are not only living from hand to mouth but they are living on prospective income. Therefore they have touch only with the borrowing business in which capacity the banks or the post-office never meets them. So their knowledge of the banks is very limited. As investors they have no money and no knowledge of banks.

2. Very few branches of the joint stock banks are found in this Province. They do attract savings but they do not export those funds outside the Province, except when they cannot find legitimate investment in their own area. They do not lend out as a rule for unproductive purpose and trade requirements vary at times and places. Any restriction on their business would not only cripple them but would also cripple the extension of the joint stock banking business. It is only with the help of outside banks that the people of the Province will learn to organise and administer well their own banks.

3. (a) Post-office accepting current account at subdivisional towns would be successful but what material benefit it would do to the people is very doubtful. Government undertaking this business without providing for advancing loan out of the money thus raised will only eliminate all that money from the commerce, industry and agriculture. Instead of doing any good it will do harm. It might act as an educative method for banking activity but the injury done by the withdrawal of all that money from the market would not weigh the resultant advantage of the education.

(b) The suggestion of post-offices working as a discounting house is good on the face of it if it can be given a practical shape. In the first place *hundi* or bills form a feature only of the towns where some

commercial activity is visible. In such places the indigenous banks already do the business. These banks know the constituents personally while the post-offices will have to work under codes and red-tapism. The approval of the parties whose discounting *hundis* or bills should be discounted will not be left by Government to the approval of the postmaster as a final authority. If it is left to him or to his recommendations or the recommendations of such other agencies it will open up a vast scope for abuses for purchase of approvals. Post-office is the only department which is free from such abuses and there the wheels of machinery run without outside oiling. It should not be degenerated. In banking it is always the personal touch and the personal responsibility which makes it run on straight lines. If non-official agency with personal touch with the people under limited Government control could be set up for this purpose, the suggestion may be given effect to. The profits could be divided between the Government and the non-official agencies. Government secures people's savings in the post-offices at some thing below three per cent. It could easily invest at 9 to 12 per cent. Even an investment of Rs. 25,000 through one agency could yield an income of over Rs. 600 a year to the agency on half share basis. Lot of educated people with landed property as assets or as assets of their relatives who would be willing to stand as their security but without cash are available. This will not only provide employment to them but also make them stay in the interior and by their personal touch be an educative asset to the people of their locality. But such persons will have to be trained in the technique before they are placed on such duties. The whole idea underlying 3(b) can only be approved if it is worked out and approved in detail and not otherwise.

4. There is large scope for banks, but pawn shops, as suggested, already exist in every household which has money to spare. Every female or widow with money not to speak of men, carries on pawn business in her seclusion behind the *purdah* through the female customers. If Government could aid such people, who desire, with more money the object will be amply served.

5. Honest *mahajans* do not mix up loan and trading transactions. Only few dishonest people do. Legislature will not check it for the *mahajan* can pay out cash from his *mahajani* business and realise next minute his trading account through the willing assistance of the customers and thus defeat the purpose of legislature. There would be more confidence in the money-lending branch of the business if separation were practically possible.

6. The indigenous bankers could very well combine and form it into an association for the pooling of information about their clients but they might also use the same combination for the further exploitation of the clients. Their objective would be not philanthropic but better and more advantage to themselves. It has more possibility of abuse. In such an association law of libel will not be prohibitive to combination.

7. I would advocate that every person who has a regular money-lending business must have definite and stated place of business, either by license or by declaration. Their operation need not be controlled unless it is done to give them any State aid. Their books of business must be stamped by specially empowered officers and fresh set of books should not be issued to them till they can show that the old one is being exhausted and immediately after their close of year they should produce it and have the last page stamped. The stamp should give the date on which it is stamped and it should be confirmed by the signature of the officer. Any entry outside such cash book should not be given credit to by the law courts and these books should be open to occasional inspection to see that they are kept up-to-date and balanced daily. The whole idea is to restrict the dishonest activities in their accounts. I would not put any other restriction on the business for it will affect adversely the agricultural classes for no legislation can force the money-lender to invest against his will.

8. Only a proportion of professional men or men in service can have savings. They always look to the time of their retirement and the provision for their family. They find stability only in the landed property. Their savings are invested on land security to a large extent. This is forcing up the price of good lands only. Merchants and industrialists who get surplus money use most of it in the extension of their business or in paper securities. They invest in landed property only to the extent of the requirement of their comfort or when they come across some very good bargain.

9. Urban industries, retail traders and small contractors obtain their finances largely from private money-lenders. If any agency could be set up which would deal only with these and avoid larger loans and loans against landed property, such an agency would be great advantage to such a class of people. Co-operative movement would be of great use for such a work if administered by persons who have technical knowledge of the commercial world and banking principles. They could go advance on pledge of commodities.

10. Co-operative societies wherever they exist effectively act as restrictive on usury.

General.—Several means have been suggested and are in existence to draw the money from the people into central places but what is needed most is that the credit and the credit facilities of the poor agriculturist should be enhanced to relieve him from the worry of and their immediate repayments and to enable him to think of an improvement and the improvement of the land and to provide for such good wishes. Unless it can be carried out his lack of land sufficient food and clothing and worry saps away his energy leaving him partly unproductive and directly and indirectly taxing his lands and also forces him to get less for his production. Banks are the backbone of India and the toning of the backbone of the people is directed towards it but we have to find out

the best means by which it can be achieved. As long as illiteracy abounds, ignorance and superstition reigns, I don't see any other means of achieving our ends than of through the co-operative bodies. They have a distinct advantage over the joint stock companies and private firms. The members of the co-operative body cannot cover. They cannot derive enormous advantage individually and the earnings of the body corporate return to the members themselves whose labours constitute towards the profit. They are managed by the members themselves through the elected representatives. They are managed with a patriotic spirit directed towards the uplift of those whom they serve and not with any underlying idea of exploitation. They not only serve but also educate. They are supervised by Government and will not be allowed to run on unsound lines. The chief need of these co-operative organisations is money and cheap money. In the present-day circumstances it is only the Government which can help them to find it. In times to come when the educative methods have borne fruit and these bodies are on a better footing it will be possible to withdraw Government help. As I have said above the benefit of the Banking Enquiry can only be judged by the benefit it can confer on the agricultural classes and no machinery is more suitable than the co-operative societies. Moreover Government should find more money to provide expert advice of various types required for the movement and also provide extensive training for those who will take up the work of administering these societies.

Oral Evidence.

Chairman: You are the Secretary of the Bihar and Orissa Co-operative Federation?—Yes.

And prior to that you have had other experience in the co-operative movement?—Yes, I have been for fifteen years past connected with the movement. I have worked as Assistant Secretary, Secretary, Deputy President and President of the Co-operative Central Bank at Muzaffarpur.

In an honorary capacity, I suppose?—In an honorary capacity at the time.

And so your knowledge of co-operation is closely connected with Muzaffarpur?—I have also acquired some general knowledge about co-operative movement. I come from the Punjab and I know how co-operative movement is carried on there as well.

Do you agree that there are three classes of money-lenders which for the purposes of our questionnaire brought together under the name of indigenous bankers, the first being the big men in the towns who lend money and also attract deposits and carry out the larger part of banking and who might be called definitely indigenous bankers? Secondly, there are in the towns smaller money-lenders who operate in other ways as traders and so on, and thirdly, there are in the villages, who may be called the rural *mahajans*, who li

villages and do the business of money-lending. Is that your experience?—In the towns, of course, there are persons who carry on purely banking business, but in the villages I do not find any persons who are purely bankers. Besides doing this business of money-lending they are either agriculturists themselves, or landlords or traders or big *ruiyats*.

The only possible exception to these are the Kabulis; I suppose?—They, of course, operate in some places only.

And the Atiths or the Nagas?—Yes, they also operate in some districts, but these people are traders as well. With all these people, money-lending is only a part of their work. Like the Kabulis who mostly deal in cloth, these people also have their own local avocations.

Professor Batheja: And there are Punjabis as well who do this business of money-lending, are there not?—Yes, they are Sikhs mostly from the Gujra district.

Are there Punjabi Hindus and Mussalmans as well who do this business?—There may be a few Hindus, but Mussalmans do not do the business.

Mr. Hodge: Very rarely can you find that kind of indigenous banker in the villages?—An indigenous banker in the villages will not accept a *hundi*.

Professor Batheja: But *mahajans* in the subdivisional towns do so?—Yes, they will accept *hundis*.

Chairman: Would you say that it is your experience that urban finance is very definitely divorced from rural finance and that the links, if any, between the two are very slight?—Yes, that is generally so.

Mr. Hodge: Then you would say that the large money-lenders in the towns do to a certain extent supply the agriculturists with finance?—I would not call that finance. I would rather say supplying means of exploitation.

Chairman: Do you think that at present the agriculturist gets more credit than he really wants?—I do not think so.

You have suggested in your memoranda that Government could help the petty agriculturists by placing cheap money at the disposal of the co-operative banks. Is it your experience that co-operative banks are able to attract the money they require?—Yes, they are able to meet the requirements.

What you think is the general rate of interest at which co-operative banks borrow their requirements?—About 7 per cent.

Do you think that you can cheapen that rate very much?—Yes, I think it could go down by 2 per cent. more.

Are you aware that the British securities stand at present at about 5 per cent?—Yes.

Then how do you think that there is chance of getting money at less than 5 per cent.?—I believe this rate will go down later on. It used to be much lower before the War.

There is a definite shortage of capital throughout the world at present. Do you agree?—Yes, that is so.

At any rate you will agree that you cannot expect Government to lend at anything like 4 per cent. to co-operative banks without placing some large burden on the tax-payer?—I do not think the burden should be considered at all. After all this is a nation-building work and is an attempt to put the agriculturists on a better financial footing. It is as good as maintaining sanitation, education and other things.

Professor Batheja : Are not the agriculturists the largest ratepayers in this country?—Yes, they are and money should be spent for their benefit.

Mr. Hodge : Even if the Government were to advance money at the rate of 6 per cent. to co-operative societies, you think it will be desirable?—I think so, as co-operative banks would not get sufficient deposits from private individuals for long periods.

Chairman : Is it not the experience of most central banks that in recent years they get more deposits than they could profitably use them?—Not in all areas, but in certain areas it is so. But owing to some defects in the management these surpluses have been noticed, because the department stopped further extension of the movement in order to improve existing societies. And some of the central banks failed to stop receiving of further deposits.

Professor Batheja : Do you not think the Department's action is justified?—I think they have done so to better the existing conditions.

Mr. Hodge : It is very obvious that if this movement is to be extended on a large scale an enormous amount of capital would be required and therefore you think it would be better for Government to advance loans?—Yes, certainly.

You have stated that people who are on the verge of insolvency join the society. Do you think that other people will join the societies in due course?—Yes, they would, when the movement is extended.

How is it at present only those people join?—It is mainly due to the caste prejudice. A *Chamar*, a *Bania* and a *Rajput* would not like to sit together.

Are you in favour of organising separate societies for different castes?—I think that could be done.

Chairman : You think unlimited liability is a potent factor in attracting deposits by the co-operative societies?—Yes, it is so.

And you think the deposits would fall off if the unlimited liability is taken away?—Yes, that is so because the moment limited liability is introduced, the credit extended to each member would shrink.

Is it your experience that people hold back from joining primary co-operative societies because of the principle of unlimited liability?—Of course, that may be one of the reasons, but I think the real reason is the caste prejudice. Provided it is their own caste people or similar in status they would not have any objection to joining these societies.

Mr. Hodge : It is quite natural of a well-to-do agriculturist of a good caste to be rather reluctant to join a society composed of *Chamars* and other low caste men, is it not?—I think so. In the villages they are very particular about these things.

Chairman : Is it mainly a social objection or an economic objection as well?—Chiefly social and to some extent economic as well, because it being worked on the principle of unlimited liability people who belong to the richer and naturally higher classes do not like to join out of fear that they might lose their wealth.

Has there in practice been much hardship to non-defaulting members on account of the principle of unlimited liability, when societies have been liquidated?—There has been no such hardship.

Is that your experience of how it works?—We have not had much of that experience of such instances but that is my impression.

In your experience of liquidations, has it ever been found necessary to apply the principle of unlimited liability?—In cases of liquidation we always draw out a contributory proportion for all members.

Mr. Hodge : Can you think of any case where this principle worked adversely against a particular member?—No cases have ever come to my notice where a member has had to pay more than the actual cost of his share. Of course, there was a case in which a decree was executed and all available cattle were attached and brought to the court of sale. And it so happened that the majority of the cattle happened to belong to one person. I intervened and helped that particular person in getting back his cattle and then caused the other members to proportionately share the decree.

That is the main reason why the big cultivator keeps aloof from the co-operative society?—Yes, that is also one of the reasons as I have already stated.

Chairman : Then dealing with the subject of marketing you suggest that there should be a net work of co-operative societies controlled by an expert. Do you speak of co-operative sale societies?—Yes.

Have you had any experience of the working of such societies in actual practice?—No, but I had occasion to visit one or two of such societies. They were what they called grain *golas* and they bought the produce of the agriculturist.

Did they work successfully?—No.

Why were they failures?—Because of the defective system of working and management, and that is why you recommend an expert to control their working?—Yes.

Would you try to bring some of the people of the *Bania* class to do it?—No harm provided his services could be obtained whole-time.

Professor Batheja : Could you persuade the *Banias* to do this work?—I do not think there would be any difficulty. There may be

many people who would be willing to come forward especially the educated among them.

So you think there would not be any difficulty in obtaining the services of experts?—I do not think so.

Mr. Hodge: You suggest, therefore, that the mentality of the *Bania* and his knowledge is important?—Yes.

Professor Batheja: Will not a *Bania* lose his mentality soon after he has gone through his matriculation examination?—He might lose the mentality of his parents but he will nevertheless keep the frugality of his parents.

Chairman: Do you not think that it will be difficult to make much profit after covering the over-head charges, when working in competition with the ordinary *Bania*?—I do not think it will fail if properly worked.

I presume you would distribute your profits among your own members ultimately?—Yes.

You advocate a more extensive use of *hundis* and you say that the people generally should resort to *hundis* lacking immediate payment. What kind of people you are thinking of?—I was thinking of the trader class people who sell in retail. At present almost 50 per cent. of the sales are on the credit basis for short periods and even some wholesale dealers do business on credit, taking a *hundi* in return.

I do not quite follow the difference between granting a three months' credit and giving of a *hundi* for three months. Will you explain that?—I will illustrate it to you. Supposing I am a shop-keeper. Fifty customers come to me and buy each, say, Rs. 100 worth of goods, which in all comes up to Rs. 5,000. I am in need of money, but I cannot collect all this Rs. 5,000 at once. For three months this sum is locked up. But supposing these people draw out a *hundi* in my favour for three months. On the credit of these *hundis* I can get money from any bankers, as these *hundis* are negotiable instruments.

Is it not a fact that ordinarily a person of the type you contemplate will also get a three months' credit from his wholesale supplier?—Not always, unless they are specially treated. Generally bills are settled after fifteen days' time.

Then according to you these *hundis* serve a useful purpose for traders?—Yes, for traders in the bigger towns.

I gather you are in favour of some form of land mortgage banks?—I am in favour of the same, but all depends on the details of its working.

Do you think the existing co-operative central banks could undertake the task of supplying long-term credit to the smaller agriculturists?—Yes, that could be done. It will involve a little more of accounting, that is all.

So you think you could organise the central banks into two separate departments, one for issuing long-term loans and the other for short-term ones?—Yes, that could be done.

Would there be any difficulty about lending to the same person through the same primary society, at once for long-term and for short-term?—There should not be any difficulty if the same committee were to decide how much should be on short-term and how much on long-term. If at all there can be only one difficulty, i.e., about book-keeping work which will have to be maintained quite separately.

Mr. Hodge: Do you not think that it will lead to practical difficulties, complications in the working of the organisation?—I do not think so.

Would you retain the principle of unlimited liability in the case of long-term loans also?—According to the present Act, a member's liability will cease two years after he resigns from the society. Such being the case, it will not be difficult to retain the principle of unlimited liability.

From your experience of the working of the co-operative societies, you think it possible to combine short-term and long-term loans in the village society?—Yes, it will be possible.

What is your idea about a long period loan?—I would advocate the granting of loans for a period of ten years and more, but not less. The agriculturists would find it very difficult to repay within a period of ten years.

Would you admit that the provision of long-term loans would involve very much closer investigation, care and all that?—Yes, certainly.

Chairman: You will admit that the long period loans necessarily have to be given out on a lower rate of interest than the existing rate of interest for members of primary societies?—Yes.

Then would there not be a temptation for a man to borrow ostensibly on a long-term to get a lower rate of interest?—There will be the temptation, of course, but there are people in the society who know all about the man and his requirements. It is only after proper investigation and care that the loans are to be made.

Then you also contemplate land mortgage banks especially designed for the smaller landed proprietors?—Yes.

Is it not possible that in certain cases a small proprietor of land is a big *raiyat* himself?—Yes, it is so, but their security and titles are different.

In the case of a man who is a proprietor of a small estate and is also a *raiyat* in regard to other lands, would you lend only on the proprietary assets?—It will depend upon the individual and his property. He will have to mortgage all his lands.

Of course, you will admit that he will not be a good constituent for such a land mortgage bank unless he is a proprietor of landed property himself?—Such people cannot be termed as landlords.

What organisation do you contemplate for the land mortgage bank?—Would you advocate the formation of one in each district?—

One in each district would be quite enough for the use of the landholders. It would be better if we have one land mortgage bank with branches in **each district controlled by a central organisation from Patna.**

Would you have any kind of local committee to consider local conditions?—Yes, there should be local committees with certain powers delegated to them and controlled by the head office.

Mr. Hodge : You think that is a better scheme to serve the needs of land-holders?—Yes. There will of course be difficulty in making sure that the assets mortgaged or pledged are good ones. Then there will be the difficulty of verifying the title deeds and there may be the possibility of a minor coming in later to claim the property. Then there may be some instances where the same property would have been attached or subject to a litigation in another place which cannot be ascertained by reference to any document, or office nor these attachments before judgements are published.

Chairman : Would it be possible to make it a penal offence and make it binding on a person to reveal the actual state of affairs before he mortgages his property?—Yes, that could be done.

Do you anticipate any trouble from the members of the family later on taking the defence that the debt was not incurred for the benefit of the joint family and therefore is not binding on the other members of the family?—In all such cases there should be a declaration that the loan is taken for the benefit of the whole family and that all members of the family are liable and should join it.

Mr. Hodge : Then do you anticipate that troubles will be created if the same property becomes the subject matter of a " will " or when a certain property is charged for " maintenance " ?—Of course, these are practical difficulties which are not found recorded anywhere.

Chairman : You would advocate that Government should guarantee not only the interest but the principal on the debentures raised in order to finance such an institution?—Yes.

Would it not necessarily follow that Government control would be complete?—As regards the use of the money that it should be spent only for specific purposes Government could control the principle, but as regards policy Government control could be lessened.

Then it will mean that Government will take all the risk and yet will not be in a position to dictate the policy?—What I want is that details of working need not be controlled. I agree to Government controlling the principles and even the policy.

I suppose you will have a directorate, the majority of whose members shall be nominated by Government?—Yes.

Why do you think that it would be necessary for Government to guarantee the principal as well as interest?—I have tried to put more force in my argument, that is all.

Mr. Hodge : Do you think that it is the legitimate duty of the Government to do it?—That is the idea.

Chairman: Would you leave Government to operate its control through the existing department?—Yes. They can be given an additional financial expert, if necessary.

Mr. Hodge: You suggest that it would be better to have an additional financial expert to advise the Registrar in these matters?—Yes.

You think that the Provincial Co-operative Bank could serve as the financing agency for the land mortgage banks. You have suggested that there should be one financing agency?—I think these land mortgage banks should be separate institutions for the benefit of the land-holders.

Chairman: You say that for the landlord's titles the existing records are difficult to look into?—Yes.

Do you find shares as entered in Register D do actually correspond to the state of affairs on the ground?—Chiefly they do, but in certain cases there may be mistakes.

I was thinking, and as a matter of fact it is my experience, that some landlords have frequently divided up their estate in a way that does not correspond to their registration in the Collectorate Register?—It might be so, in certain special cases.

From the point of view of lending to a co-sharer landlord what the bank wants to ascertain is what he really holds in lands either in his own possession or let out to rent-paying *raiya*s. Is that not so?—If the Register D shows that he has other members, then the bank can ask him to disclose the names and ask the others to come and sign as well.

What I am thinking of is a co-sharing landlord who may not even be of the same community to which his partners belong?—In that case I think they will pay Government revenues separately and inspection of the Revenue Register will disclose facts.

You think there will be necessity for the bank to go behind the Register D?—Certainly. There is no doubt about that.

You estimate that only one-third of the existing indebtedness is registered. Have you any statistical basis for that statement?—No, but that is my own experience and inference.

How did you acquire that experience?—Through my connection with the co-operative movement. In many cases I have settled the outside debts of the members who have joined our movement. It is after careful scrutiny that I have arrived at the figure one-third and

But is it not difficult to think out and work out a plan for the people who definitely refuse to do an important part of their agricultural work?—Of course, there is some difficulty to chalk out details.

Are you aware that in North Shahabad the Rajput and the Brahmin plough?—Yes.

Would it not be better for the co-operators to go round and urge on the high caste cultivators the desirability of taking a larger share of agricultural manual labour rather than devoting their leisure time to developing the weaving industry or things of that sort?—I admit some touring and propaganda would help a great deal.

Mr. Hodge : Do you think the lack of subsidiary industries is due to the lack of funds?—I do not think so. It is not lack of money that keeps them behind but it is only want of lessons.

Chairman : Further on in your memorandum you have said that the Imperial Bank, the joint stock banks and the indigenous banks offer no facilities to co-operative banks and attempts to obtain financial assistance from them have proved to be of no avail. Could you tell us what attempts made by you have been refused?—Sometimes when the central co-operative banks are short of funds and when these bankers are approached, they do not help the co-operative banks. At any rate in Muzaffarpur we have not been able to raise money that way to meet emergencies.

Do you think that there should be a compulsion on other banks to help co-operative banks whenever the latter are in need?—I do not say there should be compulsion.

Mr. Hodge : Then what is it that you suggest?—It is mainly because of the fact that these banks do not consider co-operative central banks safe that they do not advance funds to them. They have generally no confidence in the working and management of the co-operative banks. I would suggest that at least the Imperial Bank, which keeps all Government deposits, should be asked to finance the co-operative banks whenever the latter are in need.

Chairman : Do you think that the Imperial Bank should be made to advance to other banks except on good security?—It is the duty of every bank to advance money only on good securities. When the Government are considering this point they can define certain securities on which the Imperial Bank can be made to advance to the co-operative banks.

Then would you place in the hands of the Registrar the power to certify that the bank is in a good position to repay the loan, and do you want the Government to take the risk of the Registrar making a mistake?—That is quite a sound proposition. Of course, mistakes are apt to occur in any case.

Mr. Hodge : Are you not aware that the Imperial Bank branches do not pay its way in certain districts?—Yes.

Then if this suggestion is accepted, it would serve to popularise the Imperial Bank, would it not?—I agree it will.

Then you will have to make out a case to show that it is in the interests of the Imperial Bank itself to make that concession you suggest to the co-operative banks?—My suggestion is that it will react very favourably on the Imperial Bank itself.

Chairman : You have suggested that the Registrar should give a certificate in favour of a co-operative bank on the strength of which the Imperial Bank should be asked to grant a loan. Does it not virtually amount to a Government guarantee?—I do not think so. Even now the Provincial Bank advances to the co-operative central banks on the certificate of the Registrar, but it does not amount to a Government guarantee.

Professor Batheja : Then you hold that the Registrar's certificate carries with it only a recommendation?—Yes, that is all.

And it usually carries weight with the party lending money, I suppose?—Yes, specially at times when the central banks require large amount.

Can you not get the money by Telegraphic Transfer through the Imperial Bank?—They will charge 4 annas per cent.

Chairman : But that is not much, is it?—Yes, it is much.

Professor Batheja : Are you not aware that the Provincial Co-operative Bank has too much of surplus funds with them and they sometimes have to invest the same outside the Province?—The deposits of banks cannot be regulated at all times.

But as a matter of fact that is the sense of banking business. Deposits have got to be regulated, have they not?—I agree, but if you refuse to accept deposits once then it will be very difficult to attract the same when you are in need.

Why do you want to ask for help from the Imperial Bank when the co-operative banks have enough funds of their own?—I have answered that question as it was there. I do not consider it necessary at all. I do not say that co-operative banks would require outside help. We only require cheap money at cheap rates.

Chairman : I am sorry, we thought you advocated the grant of loans to co-operative banks by the Imperial Bank.

Professor Batheja : How does the Imperial Bank compete with co-operative banks in the matter of attracting deposits?—Do you not find that in actual practice the Imperial Bank rates on deposits are very much less when compared with the co-operative banks?—Yes, that is so, but in confidence the Imperial Bank does compete.

Mr. Hodge : Is the margin between the Imperial Bank rate and co-operative central banks' rate very great?—Yes, it is so, about 2 per cent. more or less.

Professor Batheja : Is not the co-operative banks' rate on fixed deposits much more than what the joint stock banks pay?—It was so but now it is not so.

We have received evidence which says that the joint stock banks have to meet the subsidised competition of the central co-operative banks. What do you say to that?—I do not understand that position.

Chairman : You say that other provinces are blessed with industry which increased their provincial wealth and more money is available there for deposits and at lower rates than in this Province?—Yes.

How much do other Provinces spend over supervision and audit?—Much more. Have you got any figures to prove that?—I have not got any figures at present, but I find that in the Punjab and Madras they have a lot of supervising agency and the Assistant Inspectors and Inspectors they are all Government paid men. All these men infuse a spirit of co-operation in the minds of the people by propaganda.

Do you think that is a desirable feature of the co-operative movement?—Certainly it is. While Government is bearing all that cost, the central banks can lend out at cheaper rates of interest. My own experience is that nearly $2\frac{1}{2}$ to 3 per cent. of the margin of the co-operative banks are absorbed in supervising work.

Professor Batheja : Do the expenses incurred by co-operative banks compare favourably with the business transacted by the *mahajans*?—There is no supervision in the case of the latter.

Do you think the expenses incurred on the supervising staff are justified by the services rendered by the co-operative movement?—Yes. certainly, they are spent usefully.

Mr. Hodge : And as a matter of fact your view is that much more might be spent?—Yes, it should be spent in the way of establishing a more efficient supervision.

Professor Batheja : Are not these large overhead charges a great handicap to the spread of the co-operative movement?—They are of course necessary.

Chairman : Is the supervising cost in the Punjab higher or lower?—I am not sure, but the supervising staff in the Punjab is paid much more than here.

Mr. Hodge : I could say that it is much more in the Punjab. For example, the work done by a small paid clerk in the co-operative society at Tirhut is done by an officer in the Punjab.

Professor Batheja : Is it your contention then that co-operative banks should be relieved of financing supervision and development of the movement?—I would not say that, but to a great extent Government support is necessary.

Mr. Hodge : Is it not a fact that co-operative banks in this Province have to bear more than half of the cost of audit?—Yes, that is so, but in some other provinces the entire cost of auditing is borne by Government.

Central co-operative banks are controlled by the societies and exist for them, do they not?—Yes, that is so.

Chairman : You say that financial concessions should take the form of making co-operative debentures popular and placing them on the same footing as semi-Government securities. What sort of securities do you contemplate?—Port trust securities and other Trustee securities.

Then you say that the merchants directly or indirectly are exploiting the agriculturists by dictating the rates of crops at which they would buy. How is it possible?—Of course, they are able to do that. There are some big commercial firms (I do not want to name them) who absolutely control the market by quoting their own prices at which they alone will purchase the articles. And in actual practice it has been found that the merchants have no other place to go to.

That is based on your Punjab experience mostly, I suppose?—Not entirely, but even in this Province there are a few instances like that.

Is it a fact that rice is controlled in that way in Bihar?—I cannot say that.

Is wheat controlled that way?—Not much of it.

Then pulses and oilseeds?—Yes, they are controlled that way.

Mr. Hodge : Then would you say that the agriculturist has no say whatsoever in determining the market rates?—None whatsoever.

Chairman : Then the agriculturist is obliged to sell his crops at a fixed rate to some particular firm?—Yes, to the firm that has advanced him money for the produce. At the time of taking the advance they agree to sell the crops at a fixed rate without any reference to the rate that will prevail when the article is actually weighed and handed over.

You have personal knowledge of that?—Yes. And even with my best efforts in Muzaffarpur in advising the *raiya*s not to fix the prices in advance, I have not been able to stop this practice at all.

Professor Batheja : What is the difficulty experienced by these *raiya*s in not holding their stocks to await better price?—Money.

Chairman : What commodity is it that you are particularly referring to?—Paddy.

Mr. Hodge : And are these traders who advance money and get the crops at a fixed rate from the *raiya*s, under the control of a bigger commercial organisation?—Yes.

Do they act as agents in any way to these big firms?—No, generally these firms have their own paid men who purchase these crops.

Professor Batheja : When you refer to the *raiya*s practically selling their produce at a fixed rate at the time of receiving an advance, are you referring to these big Calcutta merchants, or some other local merchants?—It all works in a regular chain in a particular way. The petty village dealer gets his advance from the town dealer, the town dealer from a bigger dealer and the bigger dealer from the exporter or the exporting firm.

Then do you say that money from Calcutta is being sent out that way to deal with the export trade?—Yes, it is going on that way although at first sight we are not able to notice the same.

Chairman: Are not these *mahajans* making advances to the *raiyats*?—The *mahajans* and the grain dealers are quite different people.

R. B. Dhandhania: Will you be able to give me an idea about the percentage of deposits with the indigenous bankers compared with the figures of deposits with the Imperial Bank and other joint stock banks?—I believe the percentage is extremely low. Deposits with the indigenous bankers are absolutely insignificant.

Professor Batheja: But the experience of the sub-committee of this Committee at Bhagalpur has been the reverse. We have been told that the deposits with the indigenous bankers exceed much more than the total deposits of the Imperial Bank and other joint stock banks put together in that area?—It may be so, but that is not my impression.

Chairman: If our information is true then you think that Bhagalpur is a backward town?—It should be so.

Professor Batheja: Or is it not due to the fact that indigenous banking is more popular?—I cannot say.

Mr. Hodge: How is it you say that very little deposits go to the indigenous banker?—What is your explanation for that?—People have more confidence in the Imperial Bank and the joint stock banks, because they are able to scrutinise their balance sheets which are duly audited and certified every half year, but in the case of indigenous banks their balance sheets are not audited or certified, there is no regularity in their work, and everything will have to be done on trust alone.

Has the failure of indigenous bankers caused any hardship to the trading community?—Yes, it has.

Then would you advocate any facilities to be afforded to the indigenous bankers to improve their system of work, etc.?—Yes, that should be done.

You would advocate the issue of postal cash certificates in vernacular?—Yes, it will make it more popular.

You do not anticipate any difficulties in their being issued in the vernaculars?—I do not expect any difficulty at all.

Do you not think the object of these postal cash certificates is to hold out an inducement to people to save money for long periods?—Yes, that is so.

Why do you want to make the postal cash certificates negotiable instruments?—My only object is that the holder should be able to get it cashed any time he wants, that is all.

Do you think the opening up of new branches of the Imperial Bank has been detrimental to the petty traders?—Yes, to some extent.

How?—A professional person lends out his money to the petty trader because he has no other place of investment but when the bank

opens a branch at his place, he naturally deposits his savings in the same finding it to be more secure. That is the reason why I say so.

You say that the lower and the middle classes of people are not only living from hand to mouth but they are living on prospective income. Do you think that there is large body of persons whose income is less than their expenditure?—I do not mean that, but somehow or other they fall short of funds sometime before their income comes in.

Has the co-operative movement to any great extent been successful in developing the habit of thrift?—Yes, certainly.

Professor Batheja : Do you think that people deposit more money in the post-offices with the result that it is tied up and does not come into the open market?—Yes, that is what I mean. The money that is deposited in the Imperial Bank or the joint stock banks does come back to the market, but in the case of money invested in the postal savings banks, it does not come back to the trader at all.

You think it will be better if post-offices are made to accept current accounts?—Of course, such facilities will be appreciated, but how will the money go back to the people at large.

Supposing some arrangements were made by which money collected in the post-offices may be utilised in financing the co-operative movement or some other institution, then your objection will disappear, will it not?—If some such arrangement could be made then it will be all right.

You suggest that every person who has a regular money-lending business must have a definite or stated place of business. How would you define the phrase “ a person who is a regular money-lender ”?—I would advocate it mainly in the case of people whose profession is money-lending such as indigenous bankers.

Chairman : If they are asked to notify their business place or if their business house is registered, how will that improve the position?—It will be generally known where their place of business is. I would also state that Government should make them keep regular accounts on a standardised basis. All these precautions will of course only minimise frauds perpetrated by the *mahajans*.

Is it not a fact that any man can do money-lending in the villages?—Yes, that is so. Even some of the well-to-do *raiyats* lend money in the villages sometimes.

Would you insist upon that kind of people also doing the business in a standardised manner, maintaining all books of accounts properly, have them duly stamped by Government and so on?—No, I only would insist on the procedure I have outlined in the case of people who call themselves money-lenders.

If a man keeps a *bahikhata* he should keep them more or less in a standard form and have the pages numbered, stamped and so on. Is that your idea?—Yes.

R. B. Dhandhanja : Do you think that village *mahajans* are lending money to the tenants and agriculturists only on *bahikhata* without a note?—Yes, firstly it is an oral transaction, then the signature is affixed and so on.

Professor Batheja : In your general remarks you say that no machinery is more suitable than the co-operative societies and banks for financing agricultural classes. Do you think that the co-operative organisation has covered such a large ground that you could afford to eliminate other financial agencies?—No, I do not say that, but I would advocate that co-operative agencies should be supported if any State help is decided upon.

Do you anticipate that the co-operative movement will be able to cover the entire ground very quickly?—It all depends on how far co-operative movement can spend money on extension and propaganda.

How long will it take to spread the ideas of co-operation and its benefits very widely in the country?—I think it could be done in a year's time provided propaganda work is vigorously carried on in the villages by a large number of workers, well trained in the movement.

Could you possibly train sufficient men even in five years?—Of course, there will be some practical difficulty. As I have already stated, I do not advocate the elimination of other financial agencies. That is my position.

Do you not think that it would be better for Government to help other agencies as well so that they might serve the agricultural classes better?—If you can set up a class of people who are purely bankers then that would be beneficial.

Then you will advocate State help to be given to a man who finances the cultivator in the villages and who does banking business alone?—Yes, that is my idea.

Babu SYAM NANDAN SAHAYA, B.A., Honorary Secretary Central Co-operative Bank, Muzaffarpur.

Replies to the Questionnaire.

PART I.

1. (a) The agriculturists may easily be divided into two classes, viz., the one who has sufficient capital himself to carry on his ordinary routine work of cultivation and family expenses and the other who is poorer and has to incur loans even for these. The latter class has so many ways of incurring debts. There are generally the village *mahajans* who give out money on very high rates of interest. There are a smaller class of *mahajans* to whom generally the agriculturists go for advance of seeds for a season generally returnable with a quarter or a half more

than the quantity advanced. The system is known as *Deodha* or *Sawai*. There is again the *Kabulis* and the *Punjabis* who are settled in central villages and they also advance small sums on high interests. If however there is a co-operative bank the interest is lower and there are easier terms for repayment. Sometimes the *maliks* of the village also assume the roll of a *mahajan* but such cases are rare.

(b) For capital and permanent improvements the agriculturists generally incur debts by executing a registered deed in the shape of either a mortgage or usufructuary mortgage or sale deeds. The rates of interest generally vary from 12 to 36 per cent. and the period is mostly uncertain except in the case of advances in kind when payment is insisted after the crop has been cut. The transaction is mostly carried on on *bahikhata* or hand-notes, but registered bonds and deeds are also taken when the loans accumulate to big figures. Money is generally advanced on the security of lands but tobacco and sugarcane crops are also sometimes given and accepted as security.

I do not think Government has done anything substantial or as a matter of fact anything at all in the matter of agricultural finance. They certainly at one time issued notices that they were prepared to advance money on low rates of interest for the purchase of tractors and other agricultural implements but this did not find favour with the real agriculturist class as in the first place the information did not reach the vast bulk of the agriculturists and in the second place because the modern implements themselves have not been introduced on large scales in the villages. Of course some planters took the advantage of this scheme and perhaps went in for a certain number of motor tractors. Government have also given *takavi* loans in cases of famine-stricken and flood-devastated areas but that is also very rare.

The Imperial Bank of India has only recently opened its branches in the mufassal districts and they have not yet had anything to do with the agriculturists. They mostly deal with the merchants in town and the big depositors. The other joint stock banks also confine their activities to the town only and as such have little to do with the agriculturists. The co-operative banks have undoubtedly done a great service to the agriculturists. They are meant for them and they have succeeded in diffusing the spirit of co-operation, the value of education, the utilities of better living and have saved them from the clutches of tyrannical *mahajans* and in some cases oppressive zamindars. But it is high time that even the rates of interest in these co-operative banks should be reduced. I would fix a maximum of 10 and minimum of 9 per cent. for the present. But these co-operative banks are serving a very small area in the districts. There have practically been co-operative banks in all subdivisions and I would now suggest that time has come when the central co-operative banks should be opened in central places in rural areas where educated directors are available. But in all such banks I would strongly advocate that Government should insist on either the Subdivisional Officers or the Sub-Deputy Collectors in the subdivisions or the sub-registrars of different registration offices

becoming chairmen of these banks. These are generally responsible people and their actions will be under the direct control of the Government. This would ensure better working of the banks and there will be little chance of money being misutilised or misdirected.

The indigenous bankers by which I mean private bankers are the real *mahajans* in the villages. They are really the class that are still controlling the agricultural finance in this country. The rate of interest is very high indeed and sometimes it goes up to 36 per cent. with compound interest per annum. They wield more power in the villages than even the zamindars and the repayments of interest in more cases is effected by their clients by working in their fields at concessional rates of wages. Thus they profit in the shape of both interest and forced labour.

The professional money-lenders are generally the *Kabulis* and the *Punjabis*. I call them professional because they have nothing else to do. They lend out money and also clothes mostly winter clothings and charge a very high rate of interest; as a matter of fact they are more anxious for the realisation of their interest than of their principals. I do not call the village *mahajans* as professional money-lenders because they are in most cases agriculturists or cloth dealers that is *banias*. Merchants and dealers generally keep articles and ornaments in pawn and they also charge a very high rate of interest sometimes two annas per rupee per month.

I do not think there is any other organisation worth the name for giving credit facilities to the agriculturists. Companies trading in fertilizers and modern implements have not yet found favour with the agriculturists and have therefore not developed into any actively working institution.

I cannot give any estimate of the total amount of capital required for the whole district as that requires a thorough survey of the existing conditions.

I shall deal with the defects and their remedies in reply to questions mentioned hereafter.

There is no co-ordination whatsoever among the various credit agencies including the Government and the present system of indigenous banking is so thoroughly bad that there is no scope for improvement unless it is replaced by something better which I shall mention hereafter.

The present method of marketing principal crops is that the cultivators generally take their crops to the village markets or to a *gola* (a grain mart) located in a village and sell them there at reduced rates. There are only two crops, which are sold out, viz., the tobacco crop and the sugarcane crop. In the case of the former a number of people have now begun collecting tobacco leaves from the locality and they generally take it to important town centres and there sell it at good rates. But even here the poor cultivators have to suffer a lot because they have not only to sell their leaves to the other man at a reduced rate but

there are so many intermediate men and each of them have to be paid something for one thing or the other that almost a quarter of their value is wasted on these. Sometimes a *bepari* as a trader is called in Hindi comes from different places and purchases heaps of tobacco leaves to take them away. The sugarcane is sold to a sugar factory but even here you will find an intermediary in the shape of a local zamindar or planter who settles the business with the sugar factories and gets a commission of about one anna per maund.

With regard to the formation of pools my own opinion is that it will be very difficult to do so in the case of country crops as the seeds differ so much that you cannot have one kind of crop of any appreciable weight. It is however quite possible to do so in the case of tobacco and sugarcane crops as there are not many varieties of these. There will however be one difficulty in this matter that the people are not thoroughly educated to understand the value of pooling and therefore it will take sometime before this scheme receives a popular support. People should generally be educated on co-operative principles and they may then have the strength to make a venture on the system of pooling.

The Co-operative Department can certainly help the introduction of better marketing and in that case every bank should have a separate department for the marketing side which may have nothing to do with the banking and it must be enjoined by enactment that only a fixed percentage of the annual profits should be spent on improving the marketing side. It has been found as will be supported by the statistics on the subject that whenever marketing and shop-keeping have been kept hand in gloves with the banking affairs it has been a failure. It has not only been a failure but has given a rude shock both financially and in the general estimation of the people. The credit facilities now existing during marketing of products are that when agriculturists take their products to the nearest *bazar* or the grain mart, they are required to deposit all their products with a firm and the *bania* values the produce at the most minimum rate prevailing and gives the agriculturists an advance of 50 to 75 per cent. of the value of their produce and charges an interest of 12 per cent. thereon until such time as the produce is sold by the *bania*. The *bania* also charges a commission on such sales. This system is highly injurious and the only way to remedy it seems to be by opening grain *golas* under strict Government supervision in important centres and to arrange for sale of these products both in military cantonments and other big transport stations. Sale of tobacco may be arranged with tobacconists and so on and so forth. Advances on the security of the products may also be arranged at low rate of interest by diverting funds like the Dufferin Fund or Insurance Funds in this direction.

The joint stock banks do not generally advance money on such articles as are likely to deteriorate rapidly by storage. It can certainly advance money for a week or ten days by keeping in security railway receipts or the stuff itself. The Bank of Behar is the only bank, I think, which has got an *arhat* system which is the same as that of

the *banias* described above. Merchants and dealers as I have explained above give certain credit facilities but they charge high rate of interest on advances and big commission on sales.

In the matter of internal remittances the banks are indeed a great help but the advantage is mostly taken by people residing in towns, e.g., the Marwaris and the other *Deshwali* trading concerns. The village people are yet ignorant of this advantageous system with the result that the remittances among the rural population are mostly carried on through the medium of registered or insured covers and money-orders. The only way to introduce this system of internal remittance through banks or bankers lies in either the spread of co-operative societies in large numbers or by opening small banks with the police-stations or sub-registration offices or by authorising post-offices to issue drafts just as banks at present do. As far as I know there is only one kind of *hundi* prevailing in this part of the country of course it is sometimes executed by a single person and at other times with one or two securities all depending upon the character or status of the person borrowing. *Hundis* are generally discounted in the banks or even by big private bankers.

3. There are generally two kinds of lands in this part, the low lands and the high lands. The low lands are generally used for the production of paddy as this crop needs a lot of water and water accumulates in low lands and the high lands are used for wheat, oat, barley, maize, mustard, tobacco, and sugarcane, etc. On the average the price of the high lands exceeds that of the low lands but in one subdivision of this district the paddy lands are very productive and form the bulk of the lands and as such their prices are very high. The low lands are generally sold at the rate of Rs. 100 a bigha in the Sadr and Hajipur subdivisions of the district of Muzaffarpur and the high lands from Rs. 200 to Rs. 500 per bigha. In the Sitamarhi subdivision however where the produce of paddy lands goes up at times even to 60 maunds a bigha, the good lands are sold even at the rate of Rs. 1,000 to Rs. 1,500 a bigha. The values of lands producing sugarcane and tobacco are very high and some of the paddy fields also are capable of yielding good sugarcane crop. The factors affecting the value of land are the capacity of the land to yield, circumstances and necessities of sale and the number of likely buyers. There is no settled rate in auction for non-payment of revenue. The value in this again depends on the number of buyers and the quality of lands but the general bid seldom goes above Rs. 30 to Rs. 40 per acre. In the event of sale by court decrees the value is fixed generally at the rate of Rs. 100 to Rs. 150 per acre. I have already mentioned above the value of lands by private purchase.

4. There is no legal bar to the mortgage of lands and agricultural holdings in this Province but in the case of the latter as the tenancy law do not allow sale of lands without the consent of the *malik*, the difficulty arises when the mortgage bond has to be sued and the land put up on sale but with the amending clause of the Tenancy Act.

at present pending in the Legislative Council, this difficulty will be removed.

There are no land mortgage banks in this Province. The co-operative banks could vaguely be termed as agricultural banks but even they do not permit long-term loans yet. There is however a proposal to divide the loans of the co-operative banks into two sub-heads, viz., long-term and short-term loans. The scheme will take time to mature. The capital in the co-operative banks is raised by the issue of shares by accepting deposits and by contracting loans from the Provincial Co-operative Bank and other joint stock banks. A bank that could advance loans on low interest, with terms for easy repayments will undoubtedly aid and improve the condition of some of the decaying land-owners and tenants but to arrange with co-operative banks to advance loans on lesser rate of interest would be the most practical step that could be taken in this direction. A land mortgage bank may also be of immense value.

I consider that the record-of-rights and the Government Register D of the Collectorate are the very best documents recording the title of ownership and the disputes and counter-claims can only be obviated when the question of title is gone into thoroughly otherwise however much one improves these documents of title, if they are not looked into carefully, the difficulties will naturally arise. The only safeguard that could be introduced appears to me to be, that if and when a recital made in a registered document is proved to be false in a court of justice it should be incumbent on the Government to prosecute such a man for making false statements. If this is done in some cases it would at once stop the registration of documents that are not genuine and will thus save the private bankers as also the co-operative banks from advancing loans that may not be easily recoverable. The simplification of reference to these documents of titles is possible only in one way and that is by issuing copies at a nominal cost.

In the case of mortgages difficulties do arise in getting a decree for a foreclosure but the delay and difficulties in these can only be removed by a wholesale modification of the present Civil Procedure Code and by allowing all the processes to be done under the supervision of a Government servant of rank as is done in the High Courts and by fixing a time-limit for the disposal of all such cases. By saying that the processes should be done under the supervision of a Government servant I mean that within a fortnight or a month of the filing of the suit an estimate of the entire cost of the whole case up to the time of the decree should be made out by the office and the parties concerned should be asked to pay it down in one lump sum and to file such paper or papers as may be necessary for the conduct of the case so that all the necessary steps may be taken by the office and the parties notified to appear on a date when the case is ripe for final hearing. The same procedure may also be adopted in an execution when a decree has been obtained. I do not think it is possible to make separate laws for good and bad constituents of a bank. The charges for registration of

documents and for obtaining copies of records of titles will always have to remain the same unless reduced by legislation for co-operative and such other banking concerns.

The best source of capital for a mortgage bank will be by floating debenture loans at low rates of interest or by diverting the funds of institutions like the Dufferin Fund, etc., which advance at a very low rate of interest. Private depositors will naturally look for high rate of interest and therefore these may not be attractive to them. If banks are opened under Government supervision, Government's guarantee will certainly be necessary and assurance against loss cannot possibly be given as it all depends on the kind of supervision that Government can bestow on these banks. The terms on which the agricultural mortgage banks may raise money and advance loans can only be ascertained by figure work but I would certainly suggest that nothing more should be kept as margin except what may be needed for actual expenses and for a certain percentage to be kept as Sinking Fund or Bad Debt Fund. If capital could be raised at 3 to 4 per cent., I would suggest that loans may be advanced at 6 per cent. for long-terms on the security of half of the standing crop for interest and the landed property as security for principal.

5. It is impossible to give answer to question 5 and its corollaries without taking statistics, which, in an individual capacity, it is impossible to do.

6. It is a great pity that the agriculturists do not employ their surplus time in any industry although at one time there were a number of indigenous cottage industries in this country. Rice-milling is done by capitalists in very important centres and there will be no more than about five or six mills throughout this district. Dairy-farming is unknown on large scales in this country but a caste which is known as *goalas* or milk-men do it on a very small scale in the villages. They generally keep two or three cows and perhaps the same number of buffaloes and sell milk, curd or ghee in the locality. This was done at one time by almost every family of the caste mentioned above but since the landlords have begun settling all waste lands, there has become a real want of pasture lands and most of them therefore have given up keeping cattle. People out in this country have not realised the importance of taking settlements of waste lands on low rates of rent from the *malik* and then leave that as pasture lands for cattle. The psychology has been that it is the function of the village landlord to keep lands fallow for grazing purposes. They fail to see that whereas the *malik* had thousand and one privileges at one time and used to get milk, ghee and curd at a very much cheaper rate than others, he has none whatsoever now and therefore he will be justified in not giving the same privileges to their tenants as before. The time has come when everybody wants to stand on his own rights and it is necessary that the system of taking settlement of lands and leaving them for grazing purposes should be popularised in the villages.

Gur-making is certainly prevalent in villages yet but even this is being replaced by the cultivator's sending their sugarcane to the nearest sugar factory.

Cotton ginnery and hand-spinning are also not in vogue as an industry but some people of the weaving class do it on a very small scale. This however is a very useful industry and I would suggest Government taking steps to issue *takavi* loans at 2 to 3 per cent. interest and take back in repayment of principal and interest either hand-ginned cotton or hand-spun yarn or hand-woven cloth which may later on be either sold in markets or used in such Government works as may be approved. If they are dyed properly they make excellent door purdahs and the thicker stuff can also be used as summer uniforms for *chaprasis* and other menials. The railways have to supply a dress to the vendors at stations and to their porters, the thicker stuff can easily be used in that direction also.

The only two industries which, in my opinion, can successfully be encouraged at a reasonable cost are dairy-farming and hand-spinning. But in order to do this a better class of cattle will have to be introduced in this province and arrangements for their upkeep done as I have suggested before. In the matter of hand-spinning a custom will have to be created in this province for the immediate disposal of the yarns and the use of those yarns in the manner proposed above.

The one thing however essential is to generally educate the masses both on the value of time as also on the general importance of labour. This however is only possible if primary education is made compulsory at least in the villages. The whole of the present system of imparting primary education will however have to be changed.

Eri-silk rearing and sheep-farming can also form very good enterprises to give employment for leisure hours. None of these schemes however is possible on a large scale in this province and I would suggest that a small but an enlightened area should be selected in which propaganda for better living and using extra time in advantageous enterprises should be made.

The best method for securing capital for these enterprises can be by either securing State aid or by floating loans on debenture system or such capital as is in Government control on low rate of interest should be directed in this channel. I think, in order to carry out the whole scheme a new set of men will have to be employed and they will also be in charge of the finances.

7. There is no particular relation between the co-operative bank and the other banks in the Province beyond that the co-operative banks also like private individuals deposit their money in the other banks and take loans when necessary.

The system of short and long-term loans have not yet been introduced by the central co-operative banks in their societies but the matter is under contemplation and will be enforced soon. The difficulty is that if we fix lower rate of interest for any of the two termed loans

the villagers will ordinarily say that they want the particular loan for the term in which the interest is lower and there is no method by which the authorities can really find out as to in what direction each society member spends the money he has taken. The only way to fix short and long-term loans will be by selecting necessities and the expenditure thereof which a cultivator ought to repay within a year or within a season and such as he will take a number of years to repay and if the authorities do not know for certain as to in what direction a particular loan has been spent, it would be difficult for him to fix *kists* and to call a loan long or short-term one. The other difficulty is again the question of repayment; even in short-term loans sometimes the *kists* are not repaid in time and they ultimately take the shape of long-term loans. There seems no difficulty in finding the capital for short and long-term loans as the banks are accepting deposits for six or seven years and also deposits for a year and savings bank deposits. The latter may be used for short-term and the former for long-term loans.

There is no competition with the co-operative banks and other joint stock banks as their sphere of activities are different, the one dealing in villages and the other mostly in towns.

My own idea is that the co-operative banking should be encouraged as much as possible and various concessions granted to them. Exemption from income-tax is highly necessary and special arrangements should be made for the registration of collateral security bonds and other bonds which need registration in the Co-operative Department. I would suggest that as awards of the department have the force of a decree so also Co-operative Department in the shape of an Assistant Registrar should be authorised to make easy arrangements for registration.

PART II.

1. Indigenous banking will have to be divided into two classes; the one is the bigger *mahajan* who advances money on 'On Demand' hand-notes, *hundis*, simple and usufructuary mortgage bonds and the other class is the one who does money-lending on small scale on *Bahi-Chitha* system, i.e., entering small amounts advanced on a book and making up the account at the end of the year. In both these classes there are bankers who advance money on pawning either ornaments or utensils.

2. It is a pity that the indigenous bankers do not in any way assist the growth of agricultural trade or industry. Most of them have no inclination and others are afraid of speculation.

Question nos. 4 and 5 have been partly answered in answer to question no. 1.

The indigenous bankers have generally their own funds and very seldom take loans to make advances to creditors but in rare cases and in cases of emergency they do so. They take loans from bigger *mahajans* and sometimes from joint stock banks also. The rate

of interest allowed on deposits received by indigenous bankers varies from 6 to 9 per cent.

6. The rate of interest paid by the agricultural community has been discussed thoroughly in answers to questions of Part I. But I may also mention here that the rate varies from 15 to 36 per cent. in cash and 25 to 50 per cent. in kind. The only way to reduce the interest is by extending the working of the co-operative banks and by making interest above 18 per cent. illegal by legislation. It certainly needs no argument to establish that the reduction in the rate of interest will be a great boon to all who may be in necessity of raising loans.

7. I do not think there is any particular prejudice against the indigenous bankers, on the other hand their advancing of loans is sometimes a great assistance to the needy and as such they wield a great influence in the locality. The bankers, I think, are not sufficiently protected in law. The law as it stands may not be very much against them but the rulings show that the general tendency is against the money-lender. I certainly advocate the fixing of maximum interest but the fact that the *mahajan* has to carefully examine the necessity of the borrower and to ascertain if the necessities are legal, is sometimes an impossible task and a whole case may fail if it is proved that the money was not taken for legal necessity. Then again a money-lender has not only to advance the money but he is also required in law to see that the money is actually spent for the purpose for which it was taken. These may be amended by legislation. The dealings of this class of money-lenders are not in all cases conducted on sound lines. I think it may also be settled by legislation that a particular kind of account will have to be maintained before a decree can be obtained and the mere fact of entering a name and opposite it a certain sum on an old *Bahi* book will not be enough for the purpose of law suit.

8. I do think the indigenous bankers will in the beginning resent any check being placed on them as has always been the case with all new measures but the more sensible ones will certainly appreciate it.

9. The indigenous bankers make about 10 per cent. of profit on their capital after making allowances for all expenses and losses.

10. Of course when the security is bad, loans are refused.

12. There are yet people in the mufassal who would not let their money go out of their house and keep them in a concealed place but there is not much use trying to persuade them to give up that habit. If however they want to invest what they have there is ample room and no money will be lying idle. If industrial institutions could be opened in different centres and if they could be run successfully and if they make profit then the indigenous bankers may be encouraged to start institutions of their own but as things stand at present nobody has any aptitude for anything else except money-lending.

PART III.

4. I would very strongly recommend the introduction of vernacular manuscript in banking as that will encourage the rural population to deal with banks.

Additional Questions.

FOR THE PROVINCE OF BIHAR.

1. I think the inhabitants in my Province are backward in the matter of banking, the chief reasons being that they are wanting in education, and have no aptitude for modern institutions.

2. The joint stock banks in the Province are almost all such whose head offices are outside the Province and therefore the profit in these banks naturally go to enrich the people of other provinces. The only bank whose head office is in Bihar is the Bank of Behar, Ltd., but that bank also is not doing anything very much useful and has got only a few branches attached to it. I certainly consider it a matter of pity that a province like this should not have banking institutions of its own; and as such I would suggest the Government organising a big bank and interesting big private bankers into the scheme.

3. It is a very good idea to have current accounts attached to rural post-offices. It will have general support and will be a flourishing institution provided the use of vernacular is introduced. Cheque system should also be introduced.

5. Yes, the *mahajans* mix up in a single account trading and banking transactions which, in my opinion, is a great evil and give them opportunity for many sorts of corruptions and miscalculations. It is thus very harmful to the borrowers. Keeping of separate accounts must be enforced by legislation. This will of course inspire a greater confidence in the village money-lenders.

6. The real difficulty with the *mahajans* is that they cannot make sure as to what is the previous indebtedness of a borrower and what are the other liabilities that a particular borrower has created on himself. This is where the real suspicion begins and that is why *mahajans* have to charge sometimes a very heavy interest in order to protect themselves against other losses. If a scheme could be devised to keep an exhaustive list of all loans taken and given and the validity of a loan be based on that record, then not only will that help the better organisation of money-lending but will also save people from enormous litigation. I would suggest a small office to be attached to every sub-registry office for this purpose. Any irregularity or default or concealment should be made criminally and civilly punishable according to the intentions of the parties concerned. The increase in income-tax alone would cover the expenses of all such offices and if they may not be possible a special levy per hundred of a transaction may be made.

8. I think the prices of lands are going up so high that certainly the yield does not justify the price. The chief reason being that every one who has something wants to become a landowner and thereby leave something permanent substantial for their successors. The idea is indeed very good but some check must be introduced to save fragmentation of holdings which will also naturally settle the question of the payment of unreasonable prices.

9. I would suggest the starting of small traders' co-operative banks in rural villages to finance the small retail traders and contractors.

Oral Evidence.

Chairman: You are I think a zamindar of the Muzaffarpur district?—Yes.

And besides that you have been long connected with the Muzaffarpur Central Co-operative Bank?—Yes.

Could you tell the Committee what connection you have had with the Central Bank?—I have been director for a very long time, after that Deputy Chairman for about four years and Secretary for about three years.

We understood from the Muzaffarpur bank that they had two periods of brisk demand for loans. One was from July to October for financing the rice crop and another was about February to April for financing tobacco crop. What form does the financing of tobacco crop take? Does it put members of primary societies in a position to buy tobacco from other raiyats?—What happens is this. In almost all these societies we have one or two men who do that business. They purchase fields of tobacco and then prepare the tobacco leaves, stock them and then sell out to people coming from different places or take them to other central trading places and sell there and they necessarily need money to do so.

On page 2 of your memorandum you say that Government have also given *takavi* loans in cases of famine and flood but such loans have been very rarely given. Are you aware of any area in which loans might have been very well given but were not given in recent years?—As a matter of fact even the year before last in the portion of the district of Muzaffarpur running from a portion of the Sadr subdivision and going up to the Sitamarhi subdivision there had been very heavy flood and Government did proclaim and gave *takavi* loans, but ultimately it was found that the method of giving out that loan was not much encouraging for the people to go and take it for instance if the *takavi* loan is to be given, it ought to be made through a person who goes out to the *mufassal* villagers and enquires the necessities of the people and then gives it. It is a very difficult matter for the people from the villages to come to the town, to apply for the loan and then to get it. At the time of the flood some relief boats went out

and some grains were distributed but it was not such as to have met the needs of the distressed people.

Were they given out locally by Sub-Deputy Collectors?—Yes.

Do you think that in this particular area the *takavi* loans were given out too late and not in sufficient quantity?—Yes.

Do you think that as a result of this the people who had suffered from the floods were driven to borrow money from *mahajans* at exorbitant rates?—I have personal knowledge of one or two cases where I had my own co-operative society but I think they must have had to go over to the *mahajan* and take money. In case of village societies some of these distressed people came to us and we financed them.

Was any question raised in the Legislative Council, on the subject?—I do not know but probably some questions were put.

Have you heard of any other case in the Province in recent years?—I do not know, I may have read something in the papers. Government are not doing at present what they used to do 20 or 30 years before at times of famine. Even now you will find a number of ponds, wells, tanks, etc., which were dug to help the famine-stricken people. Government has stopped that sort of organisation.

Has the need arisen for organisation on that scale?—It may not have been on that scale in a very large area but admittedly in the small area where the distress has been severe arrangements have to be made on that scale.

Do you agree that nowadays the most useful thing that Government can do in case of famine or flood is to distribute *takavi* loans promptly?—Yes.

Mr. Hodge: Would there be any objection to a member of a primary society accepting *takavi* if the loans are granted at terms that are easier?—There seems no reason why they should not accept.

Chairman: We had it stated by a keen co-operator that all *takavi* loans for members of co-operative society should be advanced through the society. Do you agree to this?—It would be very much better.

If it is given direct by Government it is given at $6\frac{1}{2}$ per cent. Will the co-operative society give at $6\frac{1}{2}$ per cent.?—Yes provided Government gives the money.

You suggest at page 2 of your memorandum that the rate of interest for co-operative banks should be reduced to a maximum of 10 and a minimum of 9. Do you think it is possible?—Yes it is. In my bank it used to be $12\frac{1}{2}$ per cent. and I have reduced it to $11\frac{1}{2}$ and would like to reduce it further.

When you speak of the rate of interest do you mean the rate at which the central banks are lending money to the co-operative societies?—Yes, I personally think I shall be able to bring it down to 10 per cent.

Then you suggest that central banks should be opened in central places in rural areas. Could you give an instance in Muzaffarpur where you think central banks could be opened?—One could be opened at Hardi and the other at Baghi.

Is it your idea that the expansion of co-operative movement should be by multiplying central banks rather than by branch banking of central banks?—I am not in favour of the latter.

What is your objection?—It will become very cumbrous. Honorary workers cannot really give that amount of time.

Suppose each branch has a local director?—You may. But why not have a central independent bank.

It may be that there may be some saving of overhead charges?—I do not think so. In all these banks I personally think the overhead charges are not very heavy.

Would it not be better to have one very competent manager at headquarters and inferior men on the branches than to have inferior men everywhere?—I do not think that it is possible in the present way in which these banks are worked. I am talking of paid officials. With regard to paid workers I think you require efficient workers whether at headquarters or branch offices.

Can you afford to pay efficient workers?—Yes. To get 200 societies to be attached to a central bank is a very ordinary business. Now that these co-operative banks have been very well known in the country it is not very difficult to open societies. If my bank likes it can open another 300 societies in three months' time. We cannot do so without organisation. That is why I am suggesting to open central banks. We have now got one in Hajipur and another in Sitamarhi and both are working satisfactorily.

You do not at present foresee any limit to the subdivision of area among central banks?—No.

Mr. Hodge : Provided you can get local directors?—Yes.

Professor Batheja : Then would you be satisfied with branch bank?—Yes if local directors are not available to open central banks.

Mr. Hodge : In that case there is room for wide expansion?—Yes.

Chairman : You say that the present system of indigenous banking is so thoroughly bad that there is no scope for improvement. May I take it you mean village *mahajani*?—Yes.

Professor Batheja : At the same time you have said somewhere that the village *mahajan* is a most important agency. Is it not so?—He is because there is no one else.

How does he survive?—Because for the *raiya*s there is no help but to go to the *mahajans*.

Do you think he can be eliminated in the near future?—If the people are sufficiently rich or you have other institutions like the Co-operative Banks to replace them.

How long will it take to set up an organisation?—As a matter of fact I have thought out the matter and consider that there is no way out except these co-operative societies but it will take a very long time. I should say 25, 30 or even 50 years, if it is worked on sound lines.

Have you any suggestion as to what should be done in the interval?—I have nothing very sound to suggest.

What sort of legislation would you suggest?—To keep their accounts in a better condition, regular check from an inspector who can go round and check these *mahajan's* accounts and license them.

Do you not suggest fixing a maximum rate of interest?—Then he will find other ways. If you fix the rate of interest the *mahajans* will charge commission.

Chairman: You say that cultivators take their crops to the market and sell at reduced rates. What do you mean by this?—For instance there is a particular crop which is selling at the town *gola* (grain market) at 5 seers to the rupee he will have necessarily to sell at 6 or $5\frac{1}{2}$ seers in the village market.

Do you think that the loss in price which he suffers by selling in the local market is more than would cover the cost of transport to the town?—Yes.

Why does not the *raiyat* himself cart to the big market and sell there?—Because he has not got that quantity.

Then do you admit that it is necessary to have some collecting agency for the market?—Yes.

Professor Batheja: Would the village *bepari* be useful for this purpose?—He makes a little more profit than what he should. Otherwise he is a useful agency.

Are the *beparis*, as an ordinary rule, who collect the grains in the villages rich men?—They are certainly rich men.

Are no comparatively poor men employed in that business?—No.

If the profits of these *beparis* are excessive do you not think many people in the present state of economic condition would flock into the business?—Because he has no money.

Cannot money be borrowed?—The man who has not got any substance cannot borrow. People lend money on the security of property.

The moment a business of this character is established and there is a regular income would not the *mahajans* generally advance money?—Only to those whose business is established, you have to establish your business before you can get money.

In the initial stages there is always a difficulty. Is there not?—Yes, in many cases village *mahajans* are also *beparis* and they do not like to encourage everybody.

Could you suggest a cheaper method of marketing than that which prevails now?—If there had been one kind of crop you could introduce something better but in country crops there are so many varieties that the question of putting them altogether becomes a difficult business, that is where the real trouble comes. With regard to sugarcane and tobacco you could do a lot.

Mr. Hodge : Do the *raiya*ts never combine to get better prices?—No. They are lacking the very idea of getting better prices for the stuff.

Professor Batheja : Is not distance, lack of communication also a difficulty in setting up a large number of selling organisations?—I would not say that. Really we have now got better system of communication.

Chairman : Do you deplore the amount which the *bepari* takes for his service in acting as an intermediary between the *raiya*ts and the big merchants?—Yes.

Do you suggest that there is no action that Government could take that would replace that system by a better one or do you think that it will gradually replace itself as communications improve and as education improves?—I think it is not possible so far as these country crops are concerned. Even Government cannot do anything. The spread of education will make it disappear.

We know the system of marketing tobacco at present at any rate up to the point at which it is moved out of the district. Do you suggest there is any way in which that system could be improved so as to give the cultivator a bigger share in his produce?—The only way to do it is that some agencies might be employed to take the tobacco to the factory places. Agents might be employed and central places might be fixed where all these village people might take their tobacco.

Do you think that would be a cheaper way of marketing tobacco?—Yes.

Would you advocate Government publishing the prices of commodities like tobacco but not country crops?—Country crop is very difficult. There is too much variety, but current market price for tobacco could be published to the great advantage of tobacco growers.

Would you advocate publication for the commercial crops like chillies and sugarcane?—Sometimes the difficulty is that the sugar factories enter into contracts before the season for the sugarcane comes in and settle with the planters or local zamindars to purchase at say 7 annas a maund and the latter arrange to purchase from growers at say 4 to 5 annas a maund. But publication of the price of chillies and sugarcane also may ultimately be of advantage.

Would you advocate the factories as far as possible buying locally and direct from the *raiya*ts?—That is the practice in some factories and it may with advantage be encouraged in others.

At the same time do you recognise that perhaps the factory depends on a steady supply of cane and that it is ultimately to the benefit of the grower that it should be quickly moved into the factory. There is not much point in holding it unless the price is outrageous?—Yes.

I do not quite follow what is your idea about tobacco. Do you think that the big factory people such as the Imperial Tobacco Company at Monghyr should send out their agents and buy direct from agents?—Yes. There are two people who make the profit. There is one man who comes from the central places to these villages to purchase tobacco leaves and there is the man who takes him over to the *raiyat* who has prepared leaves. There is also the man who has purchased fields of tobacco and prepared the leaves as I have explained above. There is so much trouble about these intermediate men that very little profit goes to the actual grower.

Have you any objection to the way in which tobacco is purchased by the bigger *raiyat* from the small *raiya*s in the field?—Is that an objectionable process?—That has to be done. Everybody cannot prepare the leaves.

I see that you suggest that advances might be made on the security of products at a low rate of interest by devoting funds like the Dufferin Fund. I am afraid I did not quite understand you?—What I said was to guide the method of getting loans at a lower rate of interest. The co-operative banks or any of the institutions that take upon themselves to finance money at a low rate of interest to these agriculturists will have to find money for it. I understand that some fund which is known as the Dufferin Fund advances money to big estates which are taken under the Court of Wards. If the security with regard to these loans and advances to co-operative societies and land mortgage banks be also secured just as money is secured under the Court of Wards then of course they should have no objection in giving their money.

Do you think that the Dufferin Fund will be in a position to advance to the co-operative central banks at a lower rate of interest than the co-operative bank can now get from outside depositors?—I see no reason why they should not.

Mr. Hodge : You suggest the opening of grain *golas* under strict Government supervision in important centres. What is your idea there?—The idea is that I have invariably found that wherever these grain *golas* or stores have been associated with co-operative banks they have always been a failure for two reasons, the one being that the ordinary person who only deals in money and gets interest has no real expert knowledge about these grains and unless you have an expert to do it it ultimately ends in failure. He does not know up to what amount advances should be made on a particular kind of grain and he also has not got an expert who knows how to store it. All this should be done under expert supervision appointed by Government. The banks ought not to have any more to do with these grain *golas* than to finance a certain sum of money and that sum also fixed

according to the condition and position of those banks. By that I mean to suggest that even if that amount of advance does not come back to the bank the bank should not be absolutely a failure.

Chairman : Did you ever hear of the Government match factory at Patna?—No.

You say that if capital could be raised at 3 or 4 per cent. loans might be advanced at 6 per cent. for long terms. In the first place do you really see any prospect of raising capital at 3 or 4 per cent.?—Not, unless we float debenture loans.

Will anybody come forward?—It is very difficult to say that.

You say that a difference of say $2\frac{1}{2}$ per cent. would be sufficient to cover all overhead charges and the risk of loss?—Yes. There is little loss if there is no dishonesty.

Mr. Hodge : Is it your opinion that long-term credit can be provided by the existing co-operative societies?—Yes, to small agriculturists.

By long-term what period do you mean?—I should put it to fifteen years.

Chairman : What should be the lower limit of long-term credit?—After three years. To clear up the indebtedness you have to go up to fifteen years. Ten years is not long enough.

Would you begin by taking a fifteen-years period or would you start more cautiously limiting it to ten?—That would be better.

Mr. Hodge : In combining short-term and long-term loan would there be some difficulty?—So long as the interest varies you will have some difficulty. We shall not be able to find out the purpose of the loan and that the staff of the co-operative bank will be sufficient to check this is doubtful.

Do you disagree with the Registrar?—Yes, I disagree with him. I would not leave the question of finding out whether a loan should or should not be given to the inspectors.

At the same time you advocate that the same (co-operative) organisation should give both short and long-term credit?—Yes.

How would you get over the difficulty of different rates of interest?—I personally do not see any reason why the rate of interest should not be the same. I do not see any reason in putting different rates of interest for short-term and long-term loans.

Professor Batheja : Do you not think that the man who promises to repay the loan in a shorter period should receive some encouragement?—It is not that question. It is a question of necessity; one needs money for a special purpose, another for another purpose.

Chairman : Is it not an advantage for a bank to have a certain source of income for ten years at a certain rate of interest rather than to have to replace its money every year or every two years?—I do not see any reason. You are more sure of the money lent on shorter terms.

Mr. Hodge : Is it not the principle that the long-term loan would be on better security?—Yes. It should be on better security as you have to leave your money for a longer time.

Chairman : Why is it then that the central banks and most other banks give a lower rate of interest for deposits of one year?—Because in that case the depositor trusts me less than the other man. There is another man who trusts me for ten years.

Mr. Hodge : Would you favour the establishment of a land mortgage bank?—Yes, to meet the case of the landowner.

Could a land mortgage bank as has been suggested be organised in the Muzaffarpur district?—Yes.

Do you think Muzaffarpur offers a good field?—Yes.

Chairman : I think it is your opinion that money could be raised locally in Muzaffarpur to a very great extent straightaway?—Yes.

Mr. Hodge : Do you think that a land mortgage bank could be managed by the central banks?—Not at all.

Chairman : Would you support the idea that it would be better to have a central organisation at Patna and the land mortgage banks in Muzaffarpur, Gaya, and so on could be managed by a manager who would be obliged to refer matters to the directors sitting in Patna?—There is no objection to that. Later on when business extends you must have local directors.

You say that banks are accepting deposits for six or seven years. Can you give any instance of central banks accepting deposits for that length of time?—In my bank we accepted one for five years and recently another for seven years. One charitable institution deposited for ten years.

What was the special reason for that?—Because it was a charitable deposit and the man did not want to deposit anywhere else.

You say that the only way to reduce the interest charged by the *mahajan* is by extending the work of the co-operative banks and by making interest above 18 per cent. illegal by legislation. Do you think that the second method would be effective?—It would be effective in the sense that the interest will not be more than that. But probably they may charge commission.

Mr. Hodge : In any case, would not the spread of co-operative movement bring down the rate of interest?—Yes, certainly.

Do you think that any part of the reduction of the rate of interest is due to increase of wealth and more money being available for lending in the rural areas?—I do not think it is that at all.

Do you think that by the reduction in the rate of interest there has been some accumulation of wealth?—No.

Is it not a fact that the business of lending money in the village is passing to some extent out of the hands of the old type of *mahajans* into the hands of the richer *raiyats*?—Some 30 or 40 years ago there

used to be only one *mahajan* who financed a whole village. Now he has gone out and small *mahajans* have come up instead.

Is not that some indication that there is more wealth?—There are some who are looking better and thrifty but the general population is not.

Professor Batheja: Are their operations as big as that of the old *mahajans*?—Not at all.

Do you think that they carry business on the same scale?—Yes, on the same line.

Is it your experience that the smaller the *mahajan* the worse are his methods?—No.

You suggest that a particular kind of account should be enforced for village *mahajani*. Would it be possible to enforce that against everybody who lends money at all?—That is only possible if you license the village *mahajan* so that only a certain class of men who are licensed, and also when the amount is advanced in a certain form, can get decrees.

Does the very small man, who lends money occasionally when he has got it, ever go into court?—He has not to go, generally.

Would it not be definitely a hardship to him not to have that facility?—Yes.

Is it possible to set up some village debt courts for settling disputes?—There are the union boards and union courts and if you give them more powers with regard to this there should be no objection.

Have you any experience of the way in which union boards empowered to decide petty civil suits are doing their work?—I have got one in my own village. I know that so far as the present union boards are concerned they are working very well.

Do you think the cost of litigation has gone down enormously?—Yes.

Do they deal frequently with suits between the village *mahajans* and their debtors?—As a matter of fact I have not gone through the Act. They are only empowered to try cases up to a certain limit. I do not know whether they have got the power to try these cases also.

Chairman: Would it be reasonable to lay down that the people who do not keep regular accounts and yet engage in money-lending could only bring suits in the union courts?—So long as they had the right, they would not agree to keep good accounts, and so long as they are not keeping their accounts in a certain form decrees should not be passed.

My point is that the kind of people, for whom it would be a hardship to be forced to keep rather elaborate accounts, might be allowed to bring their suits in their own village, so to speak, before the union court but would not be allowed to go to the regular courts?—What would be the difference?

Union courts would be in a much better position to say whether the transaction was a genuine one or not, would they not?—In some cases even the union court does not know whether a certain amount has been paid. The system in *mahajani* is that a man comes to him at night for a rupee. The *mahajan* gives him a rupee and he may or may not enter it in his books. In such cases it would be difficult for the union court to find out whether the loan was actually made.

Would not union boards when they find that a particular small money-lender was constantly bringing cases to them be inclined to say that they are not going to give him decrees if he continued this business without keeping accounts? Would not that be possible?—Yes.

You say the indigenous bankers make about 10 per cent. on their capital?—By that I mean the big bankers.

Professor Batheja : You say indigenous bankers are not sufficiently protected in law. In what respect?—What happens is this. I have first to find out that the money that he is taking is for legal necessity and after I have paid the money I have to see that he has spent it in the direction for which he took the loan. That is an impossible position for any *mahajan*.

Do you think that the village *mahajan* ordinarily realises in the end anything like the interest which he charges?—Certainly he does.

Do you think that when a loan is given on say $37\frac{1}{2}$ per cent. the bulk of the debtors do actually pay $37\frac{1}{2}$ per cent?—Yes.

Chairman : I understand there is some difficulty about mortgage security for debts. If a large parcel of land is covered by a mortgage and the debtor wishes to pay off his debt by selling a portion of that parcel it is extremely difficult to put the transaction through because no one will buy the portion until the mortgage is extinguished and if you attempt to release the mortgage for the portion which he wishes to sell the whole mortgage is extinguished and you are left only to realise as on money decree?—Yes.

Have you any suggestion to make for remedying that situation?—It would need the amendment of the Transfer of Property Act.

I understand that you advocate an improvement in the registration facilities and you wish to have all transactions registered in the registration office indexed there and then so that a certificate could be issued without any serious delay showing what documents of a particular person had been executed within the last twelve or fifteen years?—Yes.

Professor Batheja : Does the court allow interest during the pendency of a suit?—In case of mortgage, in special cases, they do; in money cases they do not. It is more or less discretionary with courts.

Do you know of any concrete case lasting for more than two years where a decree has been obtained but the interest during the

pendency of the suit has not been allowed?—I cannot give you any concrete case but I have recollection that there have been cases.

Do you subscribe to the view that the indigenous bankers are withdrawing themselves more and more from the business of financing agriculturists' trade and industry because they are exposed to a number of disabilities in the court?—I do not think so.

Your opinion is that the reason why indigenous bankers are not prepared to launch forth more boldly is the lack of security and only secondarily the difficulty of realisation in courts?—Yes.

Chairman : You suggest starting small traders' co-operative banks in rural villages. In what class of village are you contemplating starting such traders' banks?—Baghi and Paru.

Would there be sufficient scope?—Yes.

Do you find that traders in the villages actually become members of the co-operative societies at present?—I have not got any society there yet but I propose to open one.

Mr. Hodge : Would the membership be confined to the trader class?—Yes.

Would you find directors in such a village?—Yes.

Is that based on your experience of the success of the traders' bank in Muzaffarpur?—Yes.

Professor Batheja : How much does investment of money in land yield at present in your part of the country?—On the average 4 per cent.

Why do people invest so much money in land instead of investing in Government securities?—They consider it more secure there.

Is not Government security secure?—They have not got the education to see that.

Do you think that propaganda could be made to popularise the use of Government securities for investment?—Yes it could be done. The general education of the people would be the best source of propaganda.

Wednesday, November 27, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

| Rai Bahadur BANSIDHAR DHANDHANIA.

**Mr. D. R. SETHI, M.A., B.Sc. (Edin.), I.A.S. Offg. Director of
Agriculture, Bihar and Orissa, Sabour.**

Replies to the Questionnaire.

1. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. The agriculturist in this Province relies mainly for his financing on the *mahajans* and money-lenders. To a very small extent his needs are also met by the co-operative credit movement and by Government.

Except in the case of market garden crops and crops requiring intensive manuring such as sugarcane and potatoes the cultivator rarely borrows any money for actual cultivation expenses. He, however, does borrow for food purposes. He usually keeps his own seeds and neighbouring families assist each other in cultivation and harvest.

For all his other needs the small cultivator as has already been stated relies chiefly upon the village *mahajan* and money-lender.

The rate of interest charged varies with the locality. In South Bihar the usual rate is 6 pies per rupee per month or $37\frac{1}{2}$ per cent. per annum. In Orissa for long-term loans the rates vary from 25 to $37\frac{1}{2}$ per cent. while for short-term loans the rate may be as high as 50 per cent. In the case of loans in kind the interest charged is never less than 50 per cent. per annum and may be as high as 100 per cent. These rates are charged by *mahajans* and money-lenders.

The rates of interest in the case of Government loans and co-operative societies are fixed and range from $6\frac{1}{4}$ to 15 per cent.

The period for which loans are taken varies from six months to three years.

The usual securities offered for borrowing are the standing crops, ornaments and movable and immovable property.

It is no use denying the fact that at present and for a considerable time to come the one person who plays the biggest part in agricultural

finance is the village *mahajan* and money-lender. Without him it is not possible to imagine what would happen to the small agriculturist. Co-operative banks are playing a very small part and in my opinion the work done by these institutions is much overruled. Government's share is the least of these three agencies. I do not know of any part played in the financing of agriculturists either by the Imperial Bank or joint stock banks.

It is difficult to arrive at an accurate estimate of the total capital required for all purposes stated in the questionnaire. In this Province there are some 14 million acres under paddy, about 8 million acres under *bhadai*, and about 6 million acres under *rabi*, and about 287,000 acres under cane. The total area including double-cropped lands thus amounts to a little over 28½ million acres. The cultivation of all the major crops does not cost the cultivator on an average more than Rs. 45 an acre. The total capital for this item therefore will amount to 1,271½ million rupees. For permanent improvements such as wells, pumps, improved implements, etc., the figure would be about Rs. 150 an acre.

The capital required for other special needs is impossible of estimation as these needs are very variable.

The great defect in the present system of financing agriculturists lies in the fact that the amount of money available for the purpose is limited and the legal procedure for recovery of debts lengthy, and expensive. This being so one cannot blame the *mahajan* for charging a high rate of interest which is the direct result of competition amongst his clientele.

I am an ardent believer in the now historical sentence as regards the co-operative movements that "In the spread of co-operation lies the best hope of rural India". But how long is this spread going to take before it will reach each and every cultivator? At present the movement has hardly reached 1 per cent. of the cultivators of this Province and at the present rate of its spread it is impossible to state with any degree of accuracy how long it will take to reach the desired goal. In the meantime some system must be devised to lighten the burden of the cultivator both as regards the availability of sufficient money to finance his legitimate requirements and to reduce the very high rate of interest charged by the *mahajan* and money-lender. A possible solution to solve these two difficulties of the cultivator is briefly suggested later on for what it is worth.

There is at present no co-ordination amongst the various credit agencies. The rural bank idea suggested later on aims at a certain amount of co-ordination between some of these agencies, viz., the village *mahajan* and money-lender, the indigenous banker, and the Government.

2. So far as the agriculturist is concerned he sells his crop at the end of harvest either to the village *mahajan* or in the nearest weekly market. He cannot afford to wait till the market is at its highest as

he needs ready cash to meet his various requirements. The village *mahajan* in turn waits, as he can afford to do so, till the market is favourable to him when he sells to the larger merchants who operate in central markets in large towns.

Marketing pools and co-operative sales organisations have immense scope provided these are run by men who understand the business. Such organisations are bound to end in failure if run by amateurs as it happens usually. As instances of successful organisations for this purpose I may be allowed to refer to the co-operative cotton sales in the Punjab and co-operative tobacco marketing in Madras.

3. This question is rather vague. So far as this Province is concerned there are two things that determine the value of land—the proprietary rights and the tenancy rights. The tenancy value of land in this Province varies considerably. In Orissa the price per acre ranges from Rs. 50 an acre for poor uplands to Rs. 400 an acre for good paddy land. In Bihar, both South and North, the value of land is very high and varies between Rs. 100 an acre for the poorest land up to Rs. 1,500 an acre for really first class land. In the case of zamindari rights the value of land is twenty times the land revenue.

The main factors that determine the value of land are—

- (1) quality of soil;
- (2) irrigation facilities;
- (3) proximity or otherwise to a town or village;
- (4) communication facilities to markets; and
- (5) availability of labour.

Value of land in Government auctions for non-payment of revenue usually depends upon the revenue to be paid.

Value of land in the event of sale by court decrees depends upon the purchasers' demand.

The value of land in purchases by private negotiations is what may be considered as the real value and depends upon the factors enumerated above.

4. There is no legal impediment to the mortgage of land and agricultural holdings in this Province except in Chota Nagpur. In this Province any proposal to limit the cultivators' right of mortgage is not likely to succeed.

With the exception of co-operative banks there are no land mortgage or agricultural banks in this Province for giving long-term credit to cultivators.

5. It is impossible to arrive at an accurate estimate of the existing indebtedness of the agriculturists in this Province as no attempt has so far been made to ascertain this. Any figures that may be submitted in regard to this can be nothing else but guesses. What is wanted is an intensive enquiry on the lines carried out by the Board of Economic Enquiry in the Punjab and by Jack in Bengal.

6. Such industries as rice-milling and sugar-refining are industries which require comparatively large amount of capital. These are, as would be expected, in the hands of men who can command the necessary funds. The cultivator has of necessity to confine himself to small cottage industries such as rope-making, basket-making, lac cultivation, etc. *Gur*-making is a part of the work connected with the cultivation of sugarcane.

The Industries Department should carry out surveys and examine the conditions of each village and then suggest suitable industries. Only practical demonstration in the village can lead to the adoption of these industries by the villagers.

The enterprises that are likely to give employment to the cultivator in his off season are sericulture, lac cultivation, rope-making, basket-making, and spinning and weaving.

Co-operative sales societies would be the only means of enabling the producer to get a better return for his produce.

II. INDIGENOUS BANKING.

7. The rates of interest charged by the *mahajan* have already been stated in reply to question no. 1.

These rates could be lowered by making more money available for the borrowers.

The lowering of these rates would only benefit the cultivator if he spends major portion of his borrowings on productive purposes. This can only be achieved by the goodwill of the creditor, who will exercise his influence in inducing the borrower to spend the loan profitably; and by the education of the rural masses.

8. There is no prejudice against a good *mahajan* but the unscrupulous money-lender has many enemies.

9. In the present state of development and for a fairly long time to come rural India cannot do without the indigenous banker and village *mahajan*. Every effort, therefore, should be made to make this class more serviceable to the community. The best method for achieving this and that occurs to me is that in each district of the Province or better still in each subdivision of a district there should be a rural bank. The shareholders of this bank should be the public and Government. Without Government's participation these banks will not inspire confidence. The working capital of these banks will be derived from deposits which are sure to be very large if competitive rates of interest, say 5 to 6 per cent. are offered.

The bank would advance loans to the cultivators through its licensed village *mahajans* at a reasonable rate of interest allowing a sufficient margin to the *mahajan* as his profit. The *mahajan's* accounts will be liable to periodical check in order to make certain that he is not abusing the privileges given to him.

I have no doubt in my mind that the village *mahajans* will be only too glad to come into line if they are offered a fair share of the profit and if facilities are afforded to them to recover their dues by less costly and tedious methods than in force at present.

If some such financing agency as suggested above is set up it is sure to bring down the rate of interest, which should not be more than 12 per cent. per annum, will make sufficient funds available to meet all legitimate requirements of rural India, and will make the much maligned *mahajan* more serviceable to the community.

Oral Evidence.

Chairman : Mr. Sethi, are you Director of Agriculture?—I was holding that post. I have since handed over charge. When I wrote this memorandum I was officiating as Director.

You express the view that the part played by co-operative banks in financing agriculturists is much over-rated. Do you foresee that its part is likely to grow very much in the near future?—If they confine their activities mainly to the credit side of their work as it is at present, I do not think that in the near future there is any very great chance of their covering any very large area.

Would you advocate then that the expansion of the co-operative movement should be in other spheres than credit?—Yes. For example, instead of lending out in cash they should lend out in kind. Then instead of cash wanted for buying manure they should advance him the manure. They should go in also for co-operative sale organisations. Pure credit side is not the only function of the co-operative movement to which their activities are mainly confined at present.

Have you any experience of sale societies?—I do not think there is any sale society in this Province. I have some experience of cotton sale societies in the Punjab.

Do you think there is any particular reason why cotton sale societies should be successful whereas for other commodities they might be unsuccessful?—I do not see any reason.

Is very much grading required in the cotton sale societies?—As far as I know in the Punjab there are only two classes of cotton and they are entirely separate.

Would you agree that there is a very large number of varieties of rice?—There is certainly a large number of varieties of rice. But where the dealer comes in he makes no great distinction except between coarse rice and the so-called table rice.

May I take it that the sale societies dealing in rice trade would deal in paddy and not in rice?—Yes. Again, paddy is generally classed into two main classes, coarse and fine.

We had some evidence that grading would be difficult in some societies. Your impression is that from the point of view of the trade

if the paddy is classed in two classes—coarse and fine—that grading would suffice for the sale societies?—Yes.

Would the *raiya*t not object to accepting a different price for those qualities?—I do not think so.

In the Punjab, do the cotton-growers offer fairly large parcels of cotton or small?—In the colonies they grow cotton on a large scale but outside the colony on a small scale.

Are there sale societies outside the colony?—No.

Do you think that the difficulty about paddy is that it will come to the society in very small parcels from small *raiya*t's?—Yes. But if the society was so small it would not be worth having the society at all. We have got a fairly successful example in grain *gola* at Sohela in Sambalpur. They started on a modest scale with one village and for different varieties in different bins. Later on the work was so heavy that they had to open out branch *golas*. In this Province as far as I know, that is the only place where the co-operative societies dealing in goods such as rice have been successful.

In the *golas* you are speaking of is the paddy not lent back ultimately to the grower?—Originally the *gola* was started with the object of lending out seed because the interest charged on it by the *mahajans* was very high. The *gola* lent on the *sawai* system. The loan used to be returned after the harvest had been finished and after they had stored whatever they wanted for the next season, they (the members) used to sell the surplus to the society.

Can you say that this direct form of sale society is still working in Sambalpur?—As far as I know it is.

Do you think it is successful?—Yes.

Is it under the Co-operative Department?—It used to be when Mr. Collins was Registrar.

Professor Batheja : We gathered from members of the Co-operative Department that no co-operative sale society had succeeded in this Province?—I think the only reason I can ascribe to that is that the people in charge of the work of the society were not business men at all.

Who was in charge of the Sohela grain *gola*?—The man in charge was originally a *Gauntia* of the village and he was a local *mahajan*.

Do you think ordinarily speaking a great amount of business capacity would be forthcoming for running these sale societies?—Yes, I have no doubt if they are free from the control of the directors of the central banks. My experience of South Bihar central banks is that the directorate of practically all these central banks chiefly consist of local pleaders, whose one idea is to get as much profit from the money they invest as possible. They have absolutely no interest in the bettering of the cultivators. They have got their money invested and they want to put it out as fast as they can to primary societies.

Chairman : Some directors are elected by the primary societies. Do they not apply any check?—They are usually mufassal directors and come to attend the meeting of the bank periodically. Ordinarily the bank is usually run by people at headquarters.

Do you think urban influence is very much more powerful than rural influence?—Yes.

Do the central banks accept the pressure of the department to lower the rate of interest on deposits?—I think so.

Is there any other place in the Province where you came across a successful sale society?—No.

In what respect do you think the benefits of the co-operative movement have been over-rated?—The movement has been very much overboomed but it has not given the amount of relief that it is supposed to have given. For instance I went to a place about five miles away from Khunti with Mr. Gokhale to see a model village. All that we found was that four posters had been posted up on four trees and when we got the local pandit of the primary school, which has been set up by the village uplift movement to explain what was the meaning of these posters, he said that he did not know anything about them.

Professor Batheja : In what other directions can the co-operative movement extend its activities besides the sphere of selling?—I think the co-operative movement is neglecting its important duty of teaching thrift. They are rather teaching them to borrow more money. There may of course be certain exceptions here and there.

Do you think this part of the duty of the co-operative societies and central banks is not done by the present directors?—Yes. Their interest is in lending money.

Have you come across many cases of co-operative purchase societies as distinct from sale societies?—Yes. There is the case of Kanke co-operative stores.

Is it not a fact that it is not to help the agriculturists?—No. It is to help the staff of Kanke. I do not know of any purchase society.

Do you know of any manure society?—We have recently organised one at Barka in Bhagalpur.

Is that a success so far?—They have purchased 150 maunds of Ammon Phos for the paddy season and given it out to their members.

Is there any co-operative purchase society for seeds and agricultural implements?—No.

Do you think it would materially help the work of the department if some society was started to purchase implements which may be too expensive for one cultivator but may be used jointly by a number of agriculturists in a particular locality?—All over Bihar and Orissa there is plenty of scope for such implements as are beyond the means of individual cultivators.

Do you think the co-operative movement could profitably expand in that direction?—Yes, they can. We would go ahead with agricultural improvement work faster. Mr. Burt, who was the Director of Agriculture, and Rai Pakadur Barga Prashad came to some understanding as to what the two departments should do.

Has anything come out of that?—The co-operative banks have agreed now to finance agricultural improvements and since last year that they have shown some activity in that direction.

Do you anticipate that if that attitude is continued there would be very much larger investment for capital and agricultural implements through the co-operative societies, say in the next ten years, and what sort of figure might be required?—So far as banks and societies are concerned what I want them to do is to divert their present capital into this direction instead of advancing money in cash.

Would it not require raising very much larger capital?—No.

Does it require a higher business capacity?—For instance sugarcane crushing mills. There is great necessity for good mills which are beyond the means of the individual cultivator.

Do you think it requires very great business capacity to own a sugar mill?—It does not require business capacity. It requires bringing home to the cultivators the benefits.

Do you think that if suitable propaganda is carried on and such societies are started then possibly these societies might succeed?—Yes, I think if they are organised properly and there is goodwill of the people behind them, they must succeed. In South Bihar there is great need for pumping plants costing Rs. 1,000 to Rs. 1,500 capable of commanding up to 30 to 40 acres of land. If such a society be set up and everybody was treated fairly and equitably, I do not know why it should not be a success.

Chairman : Do you foresee possibly a big development of the use of pumping plants in South Bihar, and generally in non-irrigated tracts? Could you give any kind of estimate of the amount of money which could be profitably employed in that way, say in ten years?—My figures would not be accurate. The rough estimate for South Bihar for that kind of development would be Rs. 10,00,000 during the next ten years.

Is there any other part of the Province where you can see any big agricultural development in the next ten years which would require finance?—For the small cultivators, Orissa would be another part, I mean Khurda and Sambalpur.

Would you say another Rs. 5 lakhs for that?—Yes.

What about Chota Nagpur?—I do not think there is any great scope in Chota Nagpur. The water table is too low.

Do you think the finance required is mainly for sugar?—Yes.

Does the Department of Agriculture finance the purchase of expensive agricultural implements?—No. We have some funds at the disposal of the Director of Agriculture. We keep small sugar mills costing Rs. 250 and sell them to the agriculturists who ask for them.

Would you like to have funds?—No.

Does not the Department of Industries lend some money for the purpose of starting cottage industries?—They do not lend any money to agriculturists for the purchase of machinery.

Do you think you could induce cultivators to buy certain implements which you recommend on hire-purchase system?—I think they should buy these from co-operative societies where there is less official interference.

Professor Batheja : Granting co-operative societies do not develop under the relations which you have suggested now, would it be of advantage to set up societies for the purchase of these agricultural implements?—It may be of advantage from that point of view. But that department would have to take up that work. The Agricultural Department certainly cannot take it up.

Would it not be diverting the energies of a small staff from work of a more important nature?—We would be going away from the sphere of our proper activity.

Is not the State Aid to Industries Act meant for the benefit of the agriculturists and zamindars?—No. It is meant for setting up big factories.

Chairman : Does not the Land Improvement Act cover such cases?—It did not occur to any of us to suggest that.

Professor Batheja : We have discussed the possibilities of co-operative societies and State financing the purchase of implements. Granting that these are not suitable, could you suggest any form of private effort by which these things may be sold retail?—The only other private method at which they could be sold is for the manufacturing on adequate security.

Are you referring to English and American companies?—I am referring to all, for instance sugarcane mills. There is a mill which costs Rs. 200 landed in Patna. It is made at Ambala.

Cannot your department induce some *mahajans* to take up this sort of work on the ground that the *mahajan's* charges are lower and his profits may be lower?—*Mahajans* have taken to this thing in Orissa.

Is not that the position of Behia mills in Shahabad?—Yes.

Is that still there?—I think in Shahabad most of the cane-growers use their own mills.

Has the department thought it worth while to enlist the efforts of *mahajans* on a much greater degree than they have done so far?—The department is so small that we can hardly do it. It cannot request the *mahajan* to take up this work.

Chairman : Has any improved plough been devised in your department?—Yes. It is manufactured by Messrs. Arthur Butler & Co. of Muzaffarpur, and it is a very good implement.

What organisation is there for selling that?—The department has got no special organisation except that Government have been pleased

to sanction a special staff for peripatetic demonstration of these implements.

Would it not be possible to enlist the services of the *mahajans* to push these things?—It would be a good idea.

You say that the cultivation of the major crops does not cost more than Rs. 45 an acre. Is that an estimate of cost of cultivation of the staple crops of Bihar and Orissa?—This is the average cost of cultivation of crops taken together.

What it would cost for rice?—About Rs. 40 an acre, including the wages of the cultivating *raiya*.

Professor Batheja : Could you give us some rough idea as to what proportion of this cost is supplied by the agriculturist himself and what proportion is borrowed?—For actual cultivation, he does not borrow anything at all except what he might require to keep himself going between one harvest and the other.

Chairman : How much would he borrow for that purpose?—That would depend on the size of his family. For a family of 5, I should put it at Rs. 10 a month for six months.

Would it not be widely wrong to assume that one-fourth of the cost of cultivation was borrowed?—Yes, it would be reasonably near it.

In your figure of Rs. 150 an acre for improvements you are contemplating improvements on the modern style of agriculture in other countries such as fencing, power pumping plants, installation of wells and modern implements?—Yes.

Do you not think that it would hardly be possible to apply all those improvements economically to every acre in the Province?—It would not.

Am I right in saying that some fairly large areas have already got all the improvements, that can reasonably be called for, of the most expensive kind such as full provision for irrigation?—Yes.

In other areas the yield from the land is so low and must from the quality of the soil remain so, that it could not bear expensive improvements such as fencing, etc.?—Yes.

So that it would be incorrect to say that Bihar and Orissa as a whole requires Rs. 150 for every acre of cultivated land in order to bring it up to modern state of cultivation?—That is so.

Are you in a position to say what figure of acreage should be used to multiply Rs. 150?—I cannot say off-hand.

You say that the *raiya* cannot afford to wait till the market is at its highest. At what figure would you put the turn of the market for paddy between the harvest price and the highest price of the year?—About 4½ months between the harvest but before the time it gets to its highest pitch.

But supposing you take the harvest price at 100 what figure would you take for the highest price of the year on the average?—The figure

would vary from 8 annas to 12 annas per maund or from 12 to 15 per cent.

Are you thinking of the comparatively small markets at which the rate is perhaps inclined to vary more widely than in the larger markets?—I am thinking of the town markets.

Do you think that the turn of price is very much bigger in the rural markets?—The difference in price would be slightly higher.

If selling was organised by sale societies on a large scale would not the difference between harvest price and other prices tend to decrease very much?—I do not think so. There would not be very great tendency towards equalisation of prices.

If you hold your stuff for $4\frac{1}{2}$ months or so you have to pay interest during that time?—I think the increased price would still bring in handsome profit to the sale society.

Professor Batheja : What do you mean by the statement that in this Province any proposal to limit the cultivator's right to mortgage is not likely to succeed?—Under the latest Bill that is now before the Council the tendency is to give more right to the cultivator under the tenancy laws so far as occupancy rights are concerned. I think if you start putting in any obstacles towards his right of mortgage there would be opposition from the people.

Would there be certain areas in Chota Nagpur which may desire this legislation?—The right is already safeguarded there.

Chairman : Do you think that the attitude of the Legislative Council would be rather to remove any obstacles to mortgage and sale than to increase them?—Yes.

You suggest rural banks in each district or subdivision for the purpose of financing licensed village *mahajans*. Have you any idea as to who would be selected for this purpose. Would you allow any person to apply for the license?—I would give absolute freedom for applying for the license but it would be for the bank directorate to decide to whom to grant the license.

In fact you would give the bank directorate the power of selection?—Yes.

Would they fix the rate at which these licensed *mahajans* should lend their money?—Yes they will have to fix that rate.

Do you think that the *mahajan* would ordinarily be trading mainly on his own money or on the money borrowed from the bank?—It would be very difficult for him to go on with his trading once he becomes a licensed constituent of the bank.

Would it not also be very difficult for him to arrange that on the money which he borrowed from the bank he would lend at a fixed rate of interest and as far as he used his own money he would fix his own rate of interest?—I do not think it would be possible for the bank to make any hard and fast condition about interest so far as his own money is concerned.

Suppose a *mahajan* is already working on a capital of Rs. 5,000 and getting interest on the average at 25 per cent. what incentive would there be for him to apply to the bank to increase his capital by another Rs. 5,000 if he could get only on condition that he could not get more than 12 per cent. as interest?—It depends on the security of his money. He lends out at the present high rate of interest because he has got certain difficulties to face in realising his money through the courts by litigation and the one protection that I have suggested in my note is that he will be afforded facilities to recover his dues by less costly and tedious method.

Do you agree that you could not impose the certificate procedure unless the *raiyyat* borrower agreed to have certificate procedure imposed on him?—He would have to agree to it before the money is given to him.

Would it not rather tend to have some *mahajans* dealing with a double class of clientele, one on a reduced rate if they agree to the certificate procedure, and another on the present rate, who did not?—There is a possibility of that but I do not think the *mahajan* would lend his money to a *raiyyat* who did not agree to the certificate procedure if he had the option of either giving it on certificate procedure and charging a lower rate of interest or without certificate procedure at a higher rate.

Would you create a special class of *mahajans*, who would do all their business on certificate procedure basis and the rate of interest fixed by the bank, leaving any *raiyyat* who did not like that system to go to other *mahajans* who did not apply for license?—It would amount to that.

You think that if a *mahajan* takes out a license and borrows money from the bank he should be obliged to lend at a certain rate of interest fixed by the bank?—I do not think that the bank has any right to fix the rate of interest for his own money.

Would not the bank have the power to withdraw the license and the loan if he did not?—They would have. I do not think they would be able to say you must lend your own money at a particular rate of interest.

Professor Batheja : Would not the bank refuse to give license to those who conduct business on different lines than those laid down by the bank?—In practice he will not be able to lend out money on two different rates of interest.

But if the security in the two cases be different will there be any difference of price?—I think the only way to achieve that end would be to make the security in both cases the same.

Do you mean certificate procedure in all cases, in the case of banks and his own money?—You must give him some inducement.

Chairman : The inducement is that he would have certificate procedure if he is a licensed *mahajan*, but the rate of interest will be

fixed by the bank?—If the protection of the certificate is not extended to his private funds then I do not think the bank would be justified in binding him down for the rate of interest so far as his own money is concerned.

The idea at which you aim is to have a number of money-lenders operating as licensed money-lenders under the bank's rules lending entirely on the certificate procedure basis and at the same time a number of unlicensed money-lenders who would be lending on their own terms and your hope is, I take it, that ultimately the first class would drive out the second?—Yes.

The whole question really turns on whether there is need for more capital in the villages, does it not?—I think so.

Are you satisfied that there is not enough capital?—I am convinced about that.

Under the scheme that we have been contemplating will the *mahajan* not take the risk of loss?—Yes.

Will that operate as a brake on over financing *rai-yats*?—Yes.

On the other hand will the rural banks have the same incentive as the central banks at present to lend their money out as widely as they can?—Yes.

Where do you think the brake will come in?—The *mahajan* knows how much money could be usefully employed with due regard to the legitimate non-productive demand of the clientele, beyond that he is not going to borrow more money.

R. B. Dhandhania : Is it a fact that the *mahajans* are charging a high rate of interest because the realisation of their money is not certain?—Exactly.

Chairman : Would you say that that is the principal reason for the high rate of interest?—No it is one of the important reasons.

Professor Batheja : Do you think scarcity of finance is one of the reasons?—Yes.

Is there not enough competition among money-lenders?—Yes.

Chairman : Do you think it is necessary to go down to the sub-division with this organisation?—I have not thought out its details. It would be more desirable to be in close touch with parent institute. The licensed *mahajan* would know then with whom he is dealing.

Can you suggest any particular area in which you would start an experiment of this kind?—I think to begin with we might start an experiment in one of the districts of the Patna Division or the Bhagalpur Division.

Would you put it in a place where the indebtedness is already very high or where the rate of interest is very high?—Where the rate of interest is very high.

Do you think at any place where the rate of interest is very high you would be able to attract the kind of the village money-lender you

are thinking of?—Yes, provided you give them the facility on the lines suggested by me.

Would you extend the scheme to include zamindars who are actual money-lenders?—Yes, so far as their money-lending business is concerned.

Professor Batheja : On the other hand would it not be difficult to start a subdivisional bank of this character because there will not be enough business capacity available in a small area?—It is difficult for me to give a definite reply. The banks should be kept as near the *mahajans* as possible.

Do you think that a bank in a subdivision or even in a district would inspire sufficient confidence in the money market for the purpose of raising money?—If you had one apex bank at the headquarters of the Province which will have its branches extending right down to the subdivision there should not be any difficulty in raising money.

Will you be able to overcome the lack of business capacity and still keep in touch with the money market outside the Province by having a bigger apex bank?—Yes.

Chairman : What class of people would you suggest for the local directorate of such banks?—I should have as many business men as possible.

Would you try and get *mahajans* on it?—Yes.

Professor Batheja : Would you have some Government officials associated with the bank?—Government must take a share in the bank otherwise it would not inspire confidence.

Chairman : Would you also have some representatives of the consumers of the credit supplied by the bank so that some check may be possible on the abuse of power by the *mahajan*?—I think the village cultivator is not sufficiently educated to take that amount of keen interest. They very rarely say anything at all at the meetings.

Should such cultivators be available in course of time?—They should then be on the committee.

Thursday, November 28, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*). Mr. BATHEJA.

Mr. D. C. GUPTA, Director of Industries, Bihar and Orissa.

NOTE ON COTTAGE INDUSTRIES INDEPENDENT OF OR ALLIED AND SUPPLEMENTED TO AGRICULTURE IN THE PROVINCE AND THE METHOD OF SECURING WORKING CAPITAL FOR SUCH ENTERPRISES.

1. The last census of occupation enumerates about 50 different handicrafts in existence throughout the Province supporting, it is estimated, about twenty-five lakhs of people. Most of these people are either cultivators or hereditary artisans plying their crafts in combination with agriculture. The products are often crude and even primitive and are necessarily connected with the satisfaction of the primary needs of the bulk of the rural population in regard to food, clothing, shelter and protection. A list of such industries is appended herewith which will convey some idea of their scope and nature. It is not by any means exhaustive but is a fair index of the kind of cottage industries in existence throughout the Province.

2. As regards their improvement, the first step is the betterment of agriculture. Unless there is a general rise in the standard of living of the masses the demand for manufactured goods—whether made by hand in the cottages or in organised factories by machinery—will remain insufficient to furnish the necessary stimulus for the encouragement of these industries.

3. As regards improvement within the existing limitations, this can be expressed in three words—co-operation, organisation and education. The farmer and the cottage workers are both producers and consumers. Left alone they can neither get the highest value for their produce nor buy their supplies as cheaply as they should. It is, therefore, imperative that the co-operative principle must come to their rescue by uniting them with their fellows into co-operative societies both for the marketing of their produce and the purchase of their supplies.

4. The solution—the real solution—lies, therefore, in the co-operative movement. At present this movement has concerned itself chiefly with the financial operations, i.e. lending money. What is required is to concentrate on the commercial operations along with the grant of cheap credit. It is then only that we shall see such co-operative efforts coming into existence as in the marketing of grains, live-stocks, dairying, poultry and eggs, wool, fruits and vegetables, jute, tobacco and every other conceivable kinds of commodities, manufactured or otherwise. In Canada, the greatest achievement of the co-operative movement has been the successful organisation of producers' marketing societies for all kinds of agricultural products to the great benefit of the farmers. In Bulgaria, for instance, the Agricultural Bank of Bulgaria has been successful in organising on the co-operative system the manufacture and sale of attar of roses and wines and the marketing of silk cocoons, grains and tobacco, directly in the international market. In England, where the co-operative movement is essentially a consumers' movement, the success achieved by the two wholesale societies in undertaking all kinds of manufactures—"from cotton cloth to cocoa, from boats to buckets"—employing 40,000 people and carrying on a volume of trade to the value of £32,000,000 annually, are striking examples of what co-operation can achieve when it is backed up by organising ability, business capacity, earnestness and zeal.

5. I do not consider it necessary to introduce new cottage industries to give occupation to the farmers in the slack season. The improvement of the existing ones as regards technique, appliances, processes and design, etc., together with their organisation on sound co-operative lines in respect of financing and marketing is all that is necessary at this stage. As the people benefit from these co-operative efforts and prosper, their standard of living will rise and in its wake will arise demands for an ever-increasing variety of manufactured articles which will form the basis for expansion of the existing industries or the establishment of new ones. The best way to help people is to help themselves and that is what co-operative efforts will achieve. The people themselves will be sold to the benefits of cottage industries as spare-time occupation as a means of reducing their "overhead" on the land and obtaining extra comforts which they cannot get otherwise. Very little effort will then be required to induce them to take up, with alacrity, such industries as this department, for example, demonstrates or imparts training in at present or will do so in the future.

6. As for the financial and organising machinery to give effect to the suggestions put forth in this note, I am in favour of a single banking institution—a provincial agricultural bank—with a chain of agencies and branches throughout the Province, similar to the Imperial Bank of India and its net-work of branches all over India, in place of the present system of co-operative banks working, more or less, as individual units.

The advantages of a single institution of this character are many. In the first place, its control will be vested in men of real and large banking and business experience. Its staff will be recruited on the

basis of ability and qualification alone as in the case of the larger commercial banks. Its policy and operation will be directed and supervised by experts possessing sound business and commercial knowledge instead of by amateur and honorary advisors.

In the sphere of credit activities a single institution by virtue of its close ties with the co-operative societies and through its numerous branches will have unsurpassed facilities for the study of the agricultural situation and the credit demand of all the localities in the Province and accomplish greater uniformity, co-operation, and system than is possible under the existing conditions.

In the sphere of co-operative sales promotion and wholesale purchase of supplies and necessities of life it will accomplish what the existing co-operative banks have not even dared to attempt yet. Lack of accurate knowledge and facilities for close study of the trend of prices of commodities here and abroad and the complexity of speculations in the commodities market and stock-exchanges which govern fluctuations in prices have largely deterred the existing banks from making any earnest and substantial efforts to organise producers' marketing associations in this country. That, however, will not apply to a single large institution with greater financial strength, better organisation, and more experienced staff at its back. It will have the courage, power and ability to enter this important field of activity,—courage that strength begets, and power and ability which come of knowledge and experience.

7. As for financing the organised industries, it is generally agreed that outside the presidency towns there is serious deficiency in credit facilities for local industries and commerce. The Industrial Commission drew pointed attention to this matter in their report. The Bihar and Orissa State Aid to Industries Act represents a serious effort on the part of local Government to fill the gap that exists in this direction. The Act is not perfect, but withal, it is an useful one. The rate of interest on loans and cash-credits granted under the Act is lower than that charged by the commercial banks. Money can be advanced on the security of land, plant and machinery while the commercial banks will not accept anything but liquid assets. Machineries can also be given under the Act on hire-purchase system. The maximum period over which the repayment of loans can be spread is 20 years. It will, therefore, be seen that the terms are generous and, as sections 4 and 5 of the Act will show, the forms of State aid are sufficiently comprehensive to include all kinds of industries.

But the difficulty in giving effect to the provisions of the Act lies in two directions. In the first place, the Department of Industries has neither the machinery and organisation nor adequate experience to function as a bank. It is a Department more concerned with the improvement of the appliances, processes, and technique of industries and the education and training of the workers rather than their financial needs and wants. In surveying the financial aspect of the risk or estimating the credit standing of an enterprise, these factors are by no means the crucial ones which a bank would take

into consideration. The Industrial Commission had also expressed the view that "the task of ascertaining the soundness of a concern asking for financial aid can be best performed by a banker, and can only be undertaken by Government at some risk". The natural result of this is that the administration of the Act is much hampered and its effect in making up the existing deficiency in financing industrial enterprises is scarcely noticeable. I believe, therefore, that it would be a step in the right direction if the administration of this Act could be vested in the hands of a bank with such collaboration with this Department as necessary.

The other difficulty relates to the character and capacity of those who apply for aid. Of the three C's of credit, capital is only one, the other two being character and capacity. In other words, information as regards the financial condition of a business, its type, geographical location, and the type and character of the security offered must be supplemented by indisputable evidence that the moral calibre of its managers, their managerial ability, their standing and reputation as sound business men are satisfactory before any bank will be disposed to consider an application for loan. From the modest experience gained in industrial financing under the Bihar and Orissa State Aid to Industries Act, I am inclined to think that many of the applicants for State aid are unable to satisfy these conditions which may account for their difficulties in securing accommodation from the commercial banks.

List of Cottage Industries in Bihar and Orissa.

	No. of persons supported.
1. Rice-hulling ...	} 136,698
2. Flour-milling and dal-splitting ...	
3. Hand-weaving in cotton ...	385,062
4. Sericulture, tassar, eri and mulberry silkworm rearing.	Not known.
5. Earthenware (pottery) manufacture ...	204,759
6. Basket-making out of bamboo, reeds, etc.	157,921
7. Iron workers or blacksmiths ...	143,166
8. Oil-seed crushing ...	132,607
9. Gold and silversmiths ...	127,499
10. Wood-working ...	115,323
11. Tailoring ...	68,446
12. Manufacture of boots, shoes and sandals ...	59,036
13. Bell-metal, copper and brass workers ...	44,812
14. Cotton-ginning and spinning ...	44,647
15. Manufacture and refining of saltpetre ...	26,500
16. Wool-spinning and weaving ...	16,582
17. Jute-spinning and weaving ...	14,457
18. Rope and twine-making ...	11,213
19. Making of leather goods such as waterbags, saddlery, trunks, etc.	11,148

	No. of persons supported.
20. Lac manufacture	9,024
21. Leather-tanning	7,700
22. Bricks and tile-making	7,398
23. Silk-weaving	6,315
24. Silk-reeling and spinning of silk waste and eri ...	2,460
25. Manufacture of tobacco, opium and <i>ganja</i> ...	2,302
26. Lace and embroidery	1,877
27. <i>Gur</i> and sugar-making	1,650
28. Printing and book-binding	1,980
29. Carpet-weaving	1,320
30. Toy-making	883
31. Cabinet and furniture-making	744
32. Glassware, bangles, beads, etc.	767
33. Dyeing, bleaching and calico-printing	587
34. Manufacture of combs, toys and other articles out of horn, bone, etc.	446
35. Manufacture of matches and explosives	490
36. Manufacture of <i>hookas</i> out of cocoanut shells and metal.	
37. Tinsmithy.	
38. Cigarette and <i>biri</i> -making.	
39. Painting on wood and metal including house decoration.	
40. Hat, cap and turban-making	369
41. Lacquer work.	
42. Manufacture of dyes, paints and ink	116
43. Mat-weaving.	
44. Stone-carving.	
45. Poultry-farming.	
46. Manufacture of catechu.	
47. Tinsel and <i>tikli</i> -making.	
48. Tape and <i>newar</i> -weaving.	
49. Ivory work.	
50. Hand-knitting.	
51. Soap-making (crude).	
52. Button-making.	

Oral Evidence.

Chairman : Mr. Gupta, you are Director of Industries in the Province?—Yes.

For how many years?—For about 3½ years.

In your memorandum you suggest the development of co-operative efforts in marketing and state a number of things which could be

marketed under co-operative societies, or what are ordinarily called co-operative sale societies?—Yes.

Have you had any experience of that at all in the Province?—This department, of course, has nothing directly to do with the marketing of primary products. In the matter of finished products we have been trying to organise co-operative societies for the marketing of textiles for instance.

With what success?—We have not come to that yet. The matter is yet under the consideration of the Co-operative Department.

You say that the co-operative movement can do a great deal when backed by organising ability, business capacity, earnestness and zeal?—Yes.

Which do you think is the most important of these qualities?—I think organising capacity and business ability.

Is there plenty of earnestness and zeal?—I presume so.

You speak of introducing new cottage industries. Do you think there is much opening for that?—My attitude in regard to this matter may be explained very briefly. Demand for cottage industry-wares can be created and we can organise the industries provided there is a demand. But since 80 to 90 per cent. of the people devoted to agriculture are not in a position to have a very high standard of living their demands, which are of an elementary character, cannot provide sufficient scope for cottage industries based on modern designs and tastes. We have for instance, shown what can be done in regard to the improvement of the textile industry by bringing out European designers and taking those designs as a basis for exploiting foreign markets. The business this year, as estimated, would be about Rs. 2 lakhs. That is only with one agent in London. We have recently appointed an agent in New Zealand. Taking this as an epitome of what might be done in expanding our cottage industries by meeting the demands for genuine hand-made goods, there is scope along this line. But so far as meeting the requirements of the country as a whole is concerned I think that it is a very difficult task indeed.

Do you rely on foreign markets?—Yes.

The instance which you have given of textiles, does that only concern the professional weaver?—Yes.

Do you not anticipate that the ordinary agriculturist will employ his leisure time in weaving?—Broadly speaking, I think most of the weavers are also agriculturists to some extent.

Do they form a very important part of the agricultural population?—I presume not. But you are probably aware of the economics of the handloom industry in India. The statistics show that nearly one-third of the requirements of the whole country is produced on the handloom.

Is it produced by the comparatively small professional class of weavers?—Yes, by about half a million weavers.

Do you consider that the ordinary agriculturist who is not a weaver by occupation should spend his time in weaving?—As a spare-time occupation if he would apply himself to weaving, I presume it would be useful to him. But I doubt if the character of the man could be altered to such an extent that he would take to weaving seriously. If the agriculturist could weave his cloth he would undoubtedly occupy his idle time profitably.

Would it be good enough cloth to justify the expenditure of time on it?—He will have to learn pretty thoroughly to do so.

Although spinning may be a thing that can be learnt fairly easily, can weaving be learnt in a very short time?—My own feeling is that unless you are trying for very fancy weaving the ordinary operation of putting the shuttle through and fixing the loom parts and so forth do not require any excessive skill. But for producing a first class cloth on a loom, perfect in texture and details of weave and designs, even the professional weaver requires training.

Professor Batheja : For the kind of cloth which the peasant is likely to require, do you think any special skill is necessary?—I do not think so.

Ordinarily the agriculturist, given a short course of training, would he be able to produce cloth for himself cheaper taking it all round than he can buy it either from the professional weaver or the mills?—Certainly, he will have the saving of labour.

Chairman : Would not the net result of attempting to train the ordinary agriculturist to weave his own cloth be to depress still further the existing weavers who at present are not in a very good economic condition?—That certainly would happen.

Do you anticipate in the next ten years any large expansion of the weaving industry that is done in Bihar and Orissa? Do you require extra finance to carry it?—We are introducing now a loom which, if worked to the full capacity, will increase the output of the weaver by at least 50 per cent. We are introducing 3,000 new looms per annum and we have got about 150,000 looms throughout the Province to be replaced. It is obvious that if we could in the next ten years replace the 150,000 hand-throw looms with fly shuttle looms the productive capacity of the total handlooms would be enormously increased and that would require extra finance.

Could you give me some idea of the amount of capital that might be usefully employed in the next ten years?—We are in some difficulty in estimating the capital required because we have no statistics in this Province from which we could find out what quantity of yarn is being used in the Province. But from figures which were estimated before, I gather Rs. 5 crores worth of cloth is being produced per annum in this Province. The total requirement of the Province is about Rs. 15 crores and one-third of this is Rs. 5 crores. If you double that sum, it means Rs. 10 crores.

Professor Batheja : Are there co-operative purchase or sale societies for weavers?—There are a few societies. There was one in Ranchi. A few societies have been brought about; the number is so small that it is hardly worth discussing them.

You say that co-operative movement is the only solution. Have weavers' co-operative societies for industrial purposes been successful?—So far as my information goes, they have not shown very great strength in this Province.

Has the bell-metal society in Orissa been successful?—No.

Are there any industrial co-operative societies in this Province which have succeeded?—There are none that I know of.

What are the difficulties in the way of success of these societies?—The greatest difficulty as far as I have been able to see is the marketing of goods. There is no organisation for marketing the goods and we have not got large commercial centres in Bihar and Orissa. Calcutta is practically the marketing centre for the whole of this side of the country and we have no access to Calcutta.

We had a good deal of evidence to show that the silk merchants of Bhagalpur have no difficulty in marketing their goods while the weavers have great difficulties and even if they are organised on co-operative lines their effort would not succeed. Is it because there is not enough business capacity?—That is so.

Then how do you suggest co-operative movement as a solution?—What I mean to say is that because the co-operative scheme breaks down through the weakness of the human factor, that does not necessarily render the fundamental principle unsound.

If human factor is the normal part of the equipment of the co-operative society and that factor is not sufficient, do you think the co-operative societies will help cottage industries very much?—If we have entirely to depend on the capacity of these men and if there is no way of improving their capacity then, of course, the work would not be successful. But I presume we could get trained men or train them.

How much time would be required to train these men?—I should imagine, if a school for training is established, two or three years would be required to train men who could look after marketing.

Do you think that theoretical training at school or college would qualify the men for marketing operations?—It need not be absolutely theoretical. In some parts of the world they train men in retail shops attached to commercial schools.

Are you likely to have such training institutions in this Province?—I do not know. I presume if you pay well enough to organise the business side of the co-operative organisation you would probably get results. Bengal has undertaken that and they have even gone into jute-marketing.

Is it not difficult to compete with the products of western countries, I mean with mill-made articles?—In standardised lines of articles certainly it is.

Is not the taste in the standardised goods declining day by day?—Take aluminium. A new metal has come and the bell-metal is going out. People find aluminium cheaper and naturally they will take to this sort of thing.

Is your department only concerned with cottage industries?—Yes, the bulk of our work is confined to cottage industries.

Have you done any work in larger industries?—In what way?

In advising, giving technical assistance and giving finance?—Only last Monday I had occasion to open a hosiery mill at Jharia which has been partially financed by the department. We are constantly in touch with the milling industries of this Province and our advice is sought in laying out factories, purchasing machinery, getting quotations for them and in many cases we have given State aid under the State Aid to Industries Act.

Have you given financial assistance to other industries besides the textile industry?—Yes. We gave money to the Vishwakarma Rice Mills at Digha, to a company manufacturing nails at Jamshedpur, and have given machinery on hire-purchase system to a number of rice, oil and dal mills.

We have received 98 applications for State aid, the gross value of which is nearly Rs. 39 lakhs. The number of applications sanctioned is 37; the value of the sanctioned applications is over Rs. 13 lakhs. The actual amount given out has been about Rs. 8 lakhs. Out of that the Indian Steel Wire Products Company of Jamshedpur alone got Rs. 5 lakhs.

Have there been any bad debts?—Yes, in the case of the Vishwakarma Mills Rs. 65,000 is outstanding and on the Steel Wire Products Company we lost Rs. 2,69,328.

Chairman: Out of Rs. 8 lakhs you have lent out you have lost Rs. 3 lakhs, have you not?—Very nearly Rs. 3 lakhs.

Could not these concerns raise money in the open market?—I do not know. About Vishwakarma Mills, I do not see any reason why they could not have done so on the *malpeta* system. They claimed that the banks would not lend to them except against liquid assets. The company had spent all the share money on machinery, equipment and land and naturally it was moribund unless more money was available for working capital.

We understood one joint stock bank lends money against security of fixed assets. At what rate of interest?—If it is lent on say 10, 12 or 15 per cent., it is out of the question for any business to avail of such loans.

(*Professor Batheja*: Possibly the loan was made at 8 per cent.)

Chairman : What is the rate of interest charged by Government on Government loans?—One per cent. above the bank rate.

What difficulties do rice mills experience in raising money in the local markets?—They say that they cannot get any loan from the banks without mortgaging their liquid assets on the marginal basis or the *malpeta* system, which means that the stock of raw and finished goods is under the control of the bank with a substantial margin.

Professor Batheja : Are there not plenty of rice mills which have been able to raise money and how they have raised them?—There is a firm here—Jit Lall Das. They came to Government mostly because they could get money under the Act at a moderate rate of interest. They wanted a cash credit.

Chairman : On what ground was the cash credit refused?—The terms were not acceptable to them. Government wanted them to mortgage their fixed assets and hypothecate their finished products and raw material as well, but they did not like to agree to this.

Professor Batheja : Is it not the policy of the department to pioneer new industries and finance new industries?—Under the Act, as you see, I cannot refuse a man's application because the provision of the Act is sufficiently comprehensive to provide facilities for both the established as well as pioneer industries.

Considering the amount of money which is placed at your disposal would you not as head of the department prefer to establish a new industry and finance those concerns which have not been tried in this Province than to finance an industry which is already established?—The department cannot pioneer any industry under this Act directly under its own control. Certainly our aim is to help new industries but at the same time the importance of rice and oil mills, etc., throughout the Province is also very great.

Chairman : Does the establishment of rice mills give extra occupation to the agriculturist in his spare time?—They are generally located in rural areas and give a certain amount of occupation to the rural population.

Is it not more likely that the establishment of rice mills in a particular area takes away an occupation which is carried on by the women-folk of the existing agricultural population?—I do not subscribe to that view. Husking of paddy means very strenuous work for the women-folk. On that basis the product of this Province cannot find a very wide market.

I am not asking whether the one is the more economical method of producing rice from paddy than the other. But as a matter of fact, does not the establishment of rice mills diminish the amount of cottage industries carried out by the agriculturist in his spare time?—I imagine ultimately it will be so.

You have to make your choice between two ideals (1) encouraging cottage industries and (2) making most effective use of the products of the Province?—Yes.

Professor Batheja : Coming back to that company to which the department advanced Rs. 5 lakhs, could it not raise money in the open market?—They should have been forced to raise their money in the open market or close their works.

Where are its headquarters?—Its registered head office was at Bombay.

If the directors could not convince the public about the soundness of the proposition, why should they have been encouraged by the Department of Industries?—That was done much before my time and I am not competent to speak about the motive of the Department. The company did raise Rs. 25 lakhs from the investing public which enabled it to build the factory at Jamshedpur.

What was the cause of the failure? Was it lack of demand?—The real cause was that out of Rs. 5 lakhs, Rs. 2½ lakhs went to meet some debts outstanding but which could not be converted into debentures. If this money was utilised in whole towards working capital, it would have been all right. Bulk of this Rs. 5 lakhs was absorbed in paying off old debts and purchase of some machinery and only a small amount was left for working finance. The company used to import a small quantity of rods from abroad which was its raw material and as soon as that quantity was used up the factory used to shut down. No modern factory can work profitably under such conditions.

Chairman : May I take it that the money that was supplied by Government as working capital was actually absorbed in re-establishing the company's position in regard to its block capital?—Yes, that is what I found to be the case.

Professor Batheja : Do you think that a sound proposition lacks capital in a rich city like Bombay?—I presume a sound proposition can get money.

Are there other industries which are capable of being started and do not come into being due to financial difficulties?—Yes. For instance pottery. This Province is exceptionally rich in China clay which is found in the Rajmahal hills. This is an industry which is simply awaiting finance to develop.

Is the financial difficulty the only difficulty?—In this particular case, financial difficulty is the only difficulty. Technical and business skill is there.

Is he an expert and has business capacity?—There is no difficulty about marketing. I believe the man is quite capable of managing the enterprise in a proper way.

Has he made an application?—Yes.

Is that pending?—The Board of Industries recommended the application subject to his selling shares to the face value of Rs. 3 lakhs.

Are there outside investors who are prepared to take up the proposition to the extent of Rs. 3 lakhs?—No. He has been able to secure from small investors about Rs. 1 lakh ; beyond that he cannot go.

If you were to form a company and issue a prospectus, would then capital be forthcoming in this Province?—I believe that if Government would say that it would take Rs. 5 or 10 thousand worth of shares and gave it the stamp of their approval the scheme would probably draw more attention of the public.

Does not your department know of any business man here who has money and industrial ideas and is prepared to back these ideas?—On the Board of Directors of the Company there are the names of two Rajas and a barrister-at-law and they have themselves not purchased more than the nominal shares to qualify them as directors. Apparently, they are not interested in industrial enterprise.

What about business men who are at present connected with industries?—They are rather a type of selling men rather than manufacturing men.

Do not they back silk factories and rice, oil mills, etc.?—Yes, they do but only in well-known lines. For pottery and such things they do not. Capital is shy in this Province for new enterprise.

Do you see any prospect of soap factories in Orissa?—There is plenty of oil but I am not sure if a factory to manufacture toilet soap on western lines would pay. My aim is to make washing soaps on cottage lines.

Will it be able to compete with the large scale production in the market?—Yes. From the information that I gather from Bengal and other provinces, it seems that there is market for ordinary washing soap.

Chairman: Do you go in for any short-term loans under the State Aid to Industries Act?—No.

Are you forbidden to do so?—No.

There seems to be some demand for that type of loan by sugar factories in North Bihar. Has that come to your notice?—No. A sugar factory in South Bihar wanted finance for buying some equipment and also some land from Government to make sure of their cane supply.

Is there any reason why you should not help the sugar industry?—No.

The impression is that the Industries Department is not ready to give assistance to the sugar industry. Is it a fact?—We have no fixed policy. We judge each case on its merit.

Professor Batheja: Is not this Province peculiarly fitted to have a great leather industry?—Yes.

We understood in Cuttack that a great industry could be built up if difficulties of finance could be overcome. Would you subscribe to that view?—No. I do not. Technical skill is much more important than finance.

We understood that a tannery has great difficulty in raising finance for buying raw material and they have to pay interest as much as 10 per cent. Is it so?—They have never approached me on that point. I understand that they have not got men who know the business. The development of tanning industry is hampered by the fact that a great deal of specialised knowledge is required to turn out the large number of varieties of finished leather which the market would require. I believe, however, there is scope for "half-tanned" or "crust" leather.

Can you explain why tanneries have been more successful in the United Provinces?—In the United Provinces I think they have been very fortunate in securing contracts for the supply of part of the Government's requirements and they have employed the best tanners.

Has this Government ever approached the United Provinces Government for buying certain articles for its own requirements in this Province?—There is no centralised purchase in this Province, so far as I know.

Did your department also refuse financial aid to some tannery in Bhagalpur?—They approached us but Government did not think it was a fit case for State aid.

Have you ever thought of the question of financing the furniture industry at Cuttack which appears to be fairly well established compared to other parts of the Province?—Yes. But the output is so small that it would be difficult to build up a stable industry.

Has your department investigated the question of the financing of lac industry?—No. We are interested only in lac-washing.

Would the department be prepared to consider application from this industry?—Yes, I am bound to consider.

Is it not possible to start a paper mill in Orissa?—Arrangements have already been made with the Titaghar Paper Mills. They are taking bamboos from Angul to Calcutta and later on they expect to start a factory in Angul.

How will the finance be raised?—The Titaghar people will finance themselves.

Is there any scope for saw mills?—In Orissa the difficulty is that most of the forests probably are in the Feudatory States where communication is rather bad. There is scope but I have no first-hand knowledge of that particular industry to be able to say what its requirements are. It is open to anybody to apply for State aid.

There are many companies nowadays which are thinking of starting electric concerns for industrial purposes and for home consumption. Did they ever approach the department for financial assistance?—That is done under the Electricity Supply Act and goes to the Public Works Department.

In course of our inquiries we have come across evidence which shows that there is plenty of capital for investment and which is sometimes refused both by co-operative banks and joint stock banks. Is there any means of diverting this capital for the purpose of industrial finance?—From the experience of one or two companies that have been floated during my time I should not take the view that money is plentiful and awaiting to be invested. Moneyed people do not seem to be inclined towards industrial enterprise.

You do not agree with the view that there is capital which is refused by them. Is it not so?—In any case, those banks would not be able to invest money in industries as that would mean long-term loans.

Does such capital exist which is surplus of the co-operative bank and the joint stock bank?—I know that the demand for depositing money in a central bank, where interest is high, say 7 or 8 per cent. is certainly great which helps to draw a large amount of money there. If the Co-operative Department have found money available that is because their rates are high.

Chairman : Supposing an industrial bank was founded and was in a position to offer 7 per cent. interest, do you think it would draw a large amount of capital?—Yes, provided it had Government backing and in case of failure Government would stand the loss.

Professor Batheja : I understood from private inquiries in Cuttack that the local people who were anxious to invest money in the proposed electrical concern had no chance of subscribing to it at all. Is that a fact?—I do not know.

Did your department take any measure to secure facilities?—How could we?

For instance a company gets license from the local Government, is it not only fair to the people of this Province that it should give sufficient time for successfully raising money in this Province if people chose to?—I presume that could be done by laying down that the shares should be advertised and an opportunity given to the keen investors of the Province to invest in those shares. It is quite possible that there is a genuine interest in electric supply company shares but that does not prove that money is available for all kinds of enterprise.

Is it not a fact that money in Bihar is going more and more in land because there is no opening for it anywhere else?—That is my impression.

Could not some propaganda be made by your department to invest in industrial concerns?—It is very difficult to convince a man by propaganda. The best propaganda is to show what industries are safe for investment.

Chairman : Do you think that a general propaganda directed to stimulate investment in industries would be either wise or effective?—It cannot be effective if I am telling people in a general way that

instead of putting money in land, they should try something else. It is a matter of education, time, and banking facilities.

I gather from your memorandum that you criticise the co-operative organisation on the ground that the people who direct the policy are the directors of the central banks and that there is not enough central direction of policy. Am I correct in making that statement?—It is hardly a criticism of the existing system. What I mean to say is that I do not visualise much difference in the co-operative bank and a commercial bank lending money. What I say is that a central institution for instance having branches could lend money far better than small institutions with a local bias and with very restricted outlook.

Even when the number of constituents is very large and the borrowings are very small?—Yes. After all lending money requires a certain amount of accurate knowledge of the commercial conditions and it is better done by a bank with men of business experience and banking experience behind it rather than by small institutions.

Do you recommend that the decision as to whether a particular industrial enterprise should be financed or not should be taken out of the hands of the existing Board of Industries and placed in the hands of a bank?—I certainly feel that it should be taken out of my hands and placed in the hands of a bank. This Act is really industrial banking in its scope and there is no getting out of it.

Have you any bankers on your Board of Industries?—We have bankers. Mr. Pandit is a member of the Board of Industries. With regard to gathering information about the credit risk of an application, a banker can do it better than I can.

Does any province operate on those lines?—Only two provinces have got this Act, Madras and Bihar and Orissa. The difficulty is that without proper machinery I cannot do justice to the Act itself, to Government, as well as to the applicants who apply under the Act.

Professor Batheja : Can the Board do justice?—I do not think so. A man applies, I have to find out all the information about him and the Board comes to a decision. The Board's decision is thus greatly dependent on the accuracy or otherwise of the information which I can place before them.

Do you advocate that an industrial bank should be formed to which Government should contribute in one form or another?—I am not in favour of an industrial bank as such; the time is not yet ripe. I should like to gather some more experience with the State Aid Act before considering the proposal of an industrial bank.

Do you think it beyond the scope of the ordinary duties of the department?—As it is constituted, I certainly do.

Chairman : Do you not get a sufficient amount of aid from the Board of Industries to fulfil that function to your own satisfaction?—The Board certainly gives me all the help, but my difficulty is even

before it comes to the Board. At the investigational stage of the applicant's character, standing, business capacity and so forth, I feel my organisation is hopelessly inadequate.

Then do you think that the time has not come for starting an industrial bank?—I do not think that there has been that awakening of industrial consciousness which one would have expected in the course of the last fifteen years.

In fact the prospects of a big industrial development in this Province are not sufficiently bright to justify organisation of an industrial bank to provide finance for it?—I do not think it can find enough work to go on with at this stage. I am, however, not opposed to it in principle.

Professor Batheja : All the same do you not think that without some Government backing or Government encouragement capital will not be forthcoming for financing industry?—That is so.

Do you think that your duties as the managing director of a Government industrial bank as the Act lays on you are too onerous?—Yes.

When all these are available then what is your solution of the question of industrial finance in this Province?—Government will have to do pioneering at this stage. A pioneer enterprise, when ready, can be handed over to private enterprise.

Chairman : Have there been any attempts in pioneering in this Province?—Yes.

Have they been successful?—We had only one case, that of the match factory.

Is that the only pioneering that Government has undertaken?—Yes, that is the only one under the direct control of Government.

Professor Batheja : Could you give us a little more account about this factory?—This was worked out just about the time I came here. The factory was put down at Gulzarbagh to produce 100 gross matches from wood obtained from Bettiah. Before that Mr. Collins had engaged a match expert to go round and survey the timber resources of this Province and his report was thought to be encouraging. It was decided to put down a match factory at Patna and to bring the wood from Bettiah.

What was the cause of the failure?—It was never meant to be a profitable industry. A hundred gross match factory has never been known to be profitable. It will be recognised that with all industrial enterprises there are bound to be difficulties in the initial stages. The quality and quantity of wood failed to be as satisfactory as anticipated. In the meantime the price of matches which was calculated at Rs. 2-4-0 a gross had come down to Rs. 1-8-0 to Rs. 1-4-0. This could not have been foreseen.

You say that it was assumed that the factory must give a profit. If the factory was not successful it will not encourage other people

to follow in the same path. Is it not so?—If Government were starting an industry like that the obvious way would be to take a small unit, say 100 gross, then train the labour, and to add to it gradually until it was an economic unit. Before you have a commercial unit you have to organise the supply of raw material, establish market connection, train labour and so on. That may mean five years, at the end of which the enterprise would perhaps be on a sufficiently sound commercial footing to be handed over to private enterprise and to recoup the loss sustained during the initial years.

Is there any Government enterprise in that direction which has been successful in this Province?—Yes, the organisation of the manufacture of purdahs, bed-spreads, etc., under the Cottage Industries Institute.

Is the Cottage Industries Institute paying?—It is a teaching and training institution. In the process of training we produce articles which are sold, the proceeds enabling a substantial reduction in the cost of maintenance. Thus the cost of maintaining the institute for the first year was about Rs. 35,000, the second year Rs. 25,000 and in the third year Rs. 19,000 only.

Do you think you will reach ultimately a stage at which it will pay?—No.

Does the Government Silk Institute pay?—No.

If you could set aside the teaching side of the institution, would that pay?—That I cannot say.

Is it not then what you say should be done in any pioneering industry is that you should start on a small scale and train labour?—Yes.

How do you make out that the weaving institute in Bhagalpur is mainly a teaching institution?—It is both a teaching and a training institution.

Have not many factories training sections added to them?—I do not think that under present-day conditions big factories can train the workers unless they make a special department to train their operatives.

Do they not do so in America?—Yes.

Do you think that Government institutions would pay if the training section is taken away?—They might pay.

Chairman : What part of the institute in Bhagalpur would be cut off if you give up the training part of it?—We shall simply stick to mass production in one or two profitable lines of business.

Would you be able to compete successfully with the Bhagalpur silk merchants?—Probably not because we have to depend on our managers who would not probably take that much interest without some one sitting on their heads.

**Mr. Y. A. GODBOLE, I.C.S., General Manager, Raj Banaili,
Bhagalpur.**

PRELIMINARY NOTE.

1. It is a well-known fact that almost all agriculturists are heavily indebted. Those who are free from debt may be about 10 to 15 per cent. at the outside. I am informed that 10 per cent. is nearer the mark in pargana Kharagpur. In this estate it would be possible to arrive at a fair estimate of indebtedness in the mufassal. We have got our *Laggit* Registers and by consulting the registers for, say, the last fifteen years one can trace the history of each holding in a village and find out how many of the holdings have changed hands in that period. Similarly it should also be possible to find out how many families or *jotedars* have been able to keep their holdings in the family and intact through that period. The common form of raising a loan is on a hand note or by transferring a holding or a portion of it in *sudhbharna*. And although landlords do not recognise such transfers, their existence is well known to their *amlas* in the *dehat*. They realise rent from the *sudhbharnadar* although he is not formally recognised and although the receipt is granted in the name of the old *raiyyat*. The estimate of 10 per cent. given above is what my Circle Officer of Sagrampur reports on such an examination of *laggits* and Demand Registers and from an inquiry made of mufassal *amlas*.

2. If the Committee desire it and if they would depute a couple of officers, or enlist the co-operation of some University graduates in Economics, who would like to conduct such a study of the economic condition of *raiyyats*, I would be only too glad to give them every facility. One officer can work south of the Ganges and another in the north. They would succeed in collecting some very useful material within two months. I could also depute a Raj officer to work in co-operation with them.

3. The borrowings of agriculturists are mostly for :—

- (a) expenses during cultivation ; and
- (b) for special needs, e.g., failure of monsoon, payment of rent due before the harvest is gathered or sold and social or quasi-religious purposes like marriages, *shradhs*, etc.

There is very little borrowing done for capital and permanent improvements, if loans taken for purchase of bullocks for the plough are excluded.

4. In *raiyyatwari* and temporarily-settled areas, where land revenue is liable to periodical revision, the incidence of revenue is too high. And there the Revenue laws may be, and probably are, the prime cause of the agriculturists' indebtedness. But this indebtedness is not confined to *raiyyatwari* and temporarily-settled areas. The evil is quite as rampant in the permanently-settled tracts also. It exists not only in

the dry and arid Deccan or in the west United Provinces but also in the well-watered and more fertile Gangetic plains. It exists not only where land is freely transferable but also in provinces or districts where a paternal government or old custom has restricted a *raiyat's* right to transfer his holding. Therefore, the chief causes of rural indebtedness must be sought elsewhere. To my mind they would appear to be as follows :

(1) Owing to pressure on the old stock of the arable and comparatively more fertile lands, people are gradually taking to less and less fertile lands with the result that their cultivation is not profitable; and the agriculturist has to eke out an existence, somehow or other, by starving himself and his cattle and by placing himself continually at the mercy of his *mahajan*.

(2) Agriculture is practically the only industry in the country if we leave out of consideration the few cities and industrial areas like the Jharia and Jamshedpur coal or iron fields. The result is that the number of people living by agriculture, the main and also the residuary industry, is increasing. And owing to countless generations of Indians having been used to consider land alone as the only tangible security or safe investment and owing to a lack of openings for safe and profitable investment in other industries, the hunger for land is still as keen as it ever was. Due to this cause, and also to the fact that there is much more cash in the country than in the past, the price of land has gone up. The cost of cultivation is also much higher these days—payments in cash having been substituted for payments in kind in almost all transactions—and the cultivator does not benefit from the higher price that the yield of his labour now fetches.

5. But what is equally, if not more, important than the above is the habit of the cultivator to spend lavishly on the social and quasi-religious purposes mentioned already. He does not get a good crop every year. My knowledge of the Banaili Raj tells me that in a cycle of five years there is one good crop and two middling and two very bad ones. For the better part of two out of these five years, the cultivator has to depend on the *mahajan* for payment of his rent, for the food of his family and cattle. And once he has borrowed, it is extremely difficult—almost impossible—for him to free his neck and particularly so, if, in spite of the bad crops, he has to meet marriage and *shradh* expenses or incur capital expenditure for such indispensable purposes as purchase of plough-cattle. The result is that although he is industrious and ordinarily very frugal and abstemious, there is no lot more miserable than the average Indian cultivator's.

6. There is a school of thought that attributes all the woes of the cultivator to his illiteracy. But illiteracy cannot explain everything.

I have got under me hundreds of employees who are literate and yet who cannot keep their heads above water only because they *will* borrow, even at prohibitive rates, in order to spend on *shraddh* and marriage purposes. Their literacy does not stop them from borrowing. There are also some other factors more potent than illiteracy. There is the scourge of chronic malaria or epidemics like cholera with their annual recrudescence. In north Bhagalpur and Purnea it is almost an every year occurrence that just when there is a good jute crop standing 10 feet high in the fields waiting to be cut, the cultivator with his whole family is bedridden with a virulent type of malaria and has either to see his crop waste in the field or to pay for its harvesting in cash to wage-earners from other districts. And it was a common sight even in the generally healthier south Gangetic land of Kharagpur in the last hot weather that a rich bed of paddy seedlings was lying uncared for and unused as, owing to a severe outbreak of cholera, there was no one in the village except a few old women to do the transplanting or even to drive away trespassing cattle. Just at present whole villages in Supaul are prostrated with a dreadful type of malaria so that volunteers have had to be sent over from other parts of the districts to minister to the needs of the hundreds of diseased, feeble and absolutely helpless cultivators. When, in addition to this continual loss of capital in the shape of human labour and energy, one takes into account the equally serious loss of draft and plough-cattle, one would not wonder at the universal indebtedness which holds rural population as if in a vice from which there is no escape. The cultivator is always replenishing this loss, and how can he do it but by borrowing again and again.

7. Unless, therefore, these epidemics of malaria and cholera and rinderpest or foot and mouth disease are made impossible, and unless by a systematic campaign of education it is firmly impressed on the minds of cultivators that to borrow money for a *shraddh* and thus prepare the way for the suicide of himself and his family is a greater sin than not to perform the *shraddh* for the benefit of one who is already dead or that it is a greater sin to borrow money and marry a daughter or son than to let the child remain unmarried till the child grows up and by increased strength and energy adds to the family capital, there can be no real improvement simply by raising the *raiya*'s credit or enabling him to obtain money more cheaply.

8. I need not say much about village money-lenders or *mahajans*, rates of interest and facilities of marketing as it is all common knowledge. I shall only note that all co-operative effort in the direction of "Better business" should be encouraged. There should be no difficulty in starting co-operative *golas* and making them a success provided you obtain an honest man to take charge of the stock in a *gola*, who would offer sufficient security for his job, and who would be responsible for the stock in his hand; and provided you see that your constituent members are completely freed from the clutches of their local creditors by timely and sufficient advances (against the

security of their stock deposited in the *gola*), for all reasonable needs of theirs.

It may be advisable in the beginning to appoint Government servants or officers of the Co-operative Department to the posts of *goladars*.

9. I should most strongly support the establishment of land mortgage banks. The word "mortgage" in the name of such banks might not be liked by some. So let them be called merely "land banks". They should be under the Registrar's supervision like co-operative credit banks and should be financed by Government and by the Provincial Bank. Local deposits will come in in course of time. They should lend money on security of land in cases where the ordinary co-operative credit banks cannot do it, e.g., where the sum required is fairly large or where it is required for purposes which a co-operative credit bank will not finance. The rate of interest should discriminate in favour of remunerative loans, e.g., where money is required for making an improvement. The want of such banks is universally felt, and there is good field for them, as they can be of service to landlords (who do not care to join ordinary co-operative credit societies) as well as to cultivators. They should be free from the draw-backs attaching to a land improvement loan obtainable from Government and become very popular in no time.

10. Their rate of interest must of course be lower than that charged by local *mahajans*. It must be so low as to make the improvements which it is intended to finance remunerative. A rate of $6\frac{1}{4}$ per cent. may not be objected to. But the term must be long—say 8 to 12 years, and, although all inquiries should be made and adequate security insisted on, the loan should be granted more readily than a Government loan. I have no doubt that a land (mortgage) bank will be a success in the Bhagalpur Division. As General Manager of the Banaili Raj I have had no difficulty in raising money, which we usually do by taking "deposits", from people in Bhagalpur at a rate of interest varying from 5 to $6\frac{1}{2}$ per cent. These deposits are "fixed" for a year or so and I have more than once reduced the rate of interest at the expiry of the stipulated period from $6\frac{1}{2}$ or 6 to 5 per cent. without any fear of a sudden demand for the return of such deposits. It may be that this is because the Banaili Raj is looked upon as a much better security than the local Benares Bank or Marwaris. But what I wish to make out is that there is money enough in a flourishing town like Bhagalpur for starting a land (mortgage) bank and that depositors are inclined to favour a banker whose assets are of a real and tangible form like land more than another whose assets are locked in some uncertain business like jute or who is dabbling in the share or bullion market or who is not a native of the place and has his head office away from the place. Petty zamindars and the more substantial cultivators are often approaching me for loans at 7 to 9 per cent. on good security. The zamindar is probably in need of money to enable him tide over some difficulty or family need.

And the substantial cultivator is often anxious to reclaim a new area of land or improve its quality or construct a fairly substantial irrigation work. I have had requests made to me for a loan for putting in a tube-well and pump more than once. And if I have not opened a Banaili land bank or extended the banking activities of the Raj, it was only because I could not commit the estate to any such policy when I knew that my deputation could only be for a limited time after which things would revert back to the old state of differences among the proprietors leading, sooner or later, to a partition of the estate. But that does not mean that I am doubtful of the need or of the success of such a bank.

11. It must be noted, however, that a big landlord like the Banaili Raj who is fairly solvent, either acting by himself alone or in co-operation with other landlords and some bankers, would enjoy a special advantage in running a land bank and making it a success. Being himself a landlord, it is an easy matter for him to take over from a defaulting client his mortgaged land in satisfaction of all dues and either manage it himself or sell it or settle it with another person. A land mortgage bank, however, not being itself a zamindar and not aspiring to set up as a zamindari company may find the task of taking possession of or managing properties which have been purchased in execution of its own decrees tardy, irksome, difficult and unprofitable. It will have per force to sell them again or resettle them—a business which may not always be very profitable to the bank. All this will have to be borne in mind in fixing the rate of interest or in foreclosing and putting up any property to sale. These handicaps natural to a bank and the difficulties incidental to foreclosure, sale or taking over of possession can, however, be minimised if—

- (1) the provisions of section 145, Criminal Procedure Code, are amended. At present it is possible for a tenant (the outgoing judgment-debtor), if he is wicked enough, to stick to his land even after he has been formally and legally ousted therefrom. If he holds on, or even if he only manages to convince a sympathetic criminal court that he is holding on, the creditor who may have obtained a decree against him and got him ejected has no remedy but to go to the civil court again. Against all this harassment from which creditors often suffer, and the uncertainties and delays of litigation and of obtaining possession, the *mahajan* has to insure himself by charging a high rate of interest. And the land mortgage banks will not fare better unless these difficulties, etc., are removed. Why should not a law be passed amending the present section 145, Criminal Procedure Code and making it possible for a creditor who has once obtained delivery of possession of his debtor's land through a competent civil court and after proper service of preliminary summonses, sale proclamations, etc., to apply (later on, if

necessary) to a magistrate for aid, and obtain it against the judgment-debtor if the latter would hold on even after a delivery of possession by the civil court? What I mean is that it should not be the duty of a magistrate blindly to respect all existing possession, lawful or otherwise. He should respect only lawful possession and it should be competent to him to oust a fellow (with force, if required), who is in unlawful or illegal possession, no matter whether he has obtained it within the two months before the magistrate's order or earlier.

- (2) If a *karta* or manager of a joint Hindu family incurs a debt for improvement of the family property on the mortgage of the property, it should in no case be open, later on, for any member of the family or his heir to challenge the validity of the mortgage. Unless these uncertainties of law are removed, capital would be as dear and as shy as at present.
- (3) I believe that in the case of city surveys in some provinces, a mere entry as owner in a record-of-rights is evidence of title. In entering into a transaction with a person whose name is thus shown as owner and in relying on the mere entry in the record-of-rights, the position of a vendee or mortgagee is safe and the task of making an inquiry or search prior to a conveyance becomes simplified. It should be possible to enact similar provisions regarding city and other surveys in all provinces—at least as regards all future surveys and settlements, revision or original. As a corollary it will have to be enacted that every transferee of or successor to land must get his transfer or succession entered in the record-of-rights.
- (4) If the land mortgage banks are properly constituted and loans are granted after proper publicity and if their affairs are controlled and supervised like those of the co-operative credit societies, they could be vested with the power of applying for an award having the force of a decree so that the process of foreclosure or a litigation followed by sale and delivery of possession could be very much curtailed and expedited.

12. There is no doubt that *raiya*s' holdings are changing hands far too frequently owing to the severe handicap of every kind from which the rural population suffers. Those who were peasants and cultivators themselves are gradually becoming agricultural labourers or leaving the villages for towns. The tendency is very marked in the drier and insufficient irrigated parts of the country where in the course of a day's motor-drive one comes across scores of "deserted villages". And that in the more favoured parts of the country like the plains of Bihar and Bengal or the Land of the Five Rivers, land is yet in demand and one sees cultivation going on all round is because there

is no other industry which is attractive or safe to provide scope for the savings of those who are fortunate enough to have any. And again it is a very common thing for one member of a joint family to leave his hearth and farm for the docks or mills of Calcutta and Bombay or for the tea plantations and send his surplus earnings home for payment of the landlord's and *mahajan's* dues. But for such help from outside, those living on the home farms would never be able to stick to their cultivation for any length of time. The purchasers from those old cultivators in their turn share the same fate.

13. As he sees that agriculture in its present condition is not self-supporting, the cultivator steeped in poverty and ignorance has naturally no incentive to introduce "Better farming". I have repeatedly asked tenants in this Raj to take to better crops and seeds recommended by the agricultural department and, where it is possible to do it, to construct *ahras* like those in Patna and Gaya for storing up water which they could use against failure of *hathiya* rains. There is very little response and I consider it to be due not so much to the proverbial conservatism of the Indian cultivator but to a feeling of helplessness created by the circumstances described above and to the lack of incentive. The periodical enhancement of rent which threatens *raiya*t in permanently as well as temporarily-settled districts is also another source of discouragement.

14. There are no subsidiary industries worth the name carried on on any considerable scale in rural areas. And in the present undeveloped state of the country's resources, the complete absence of any technical knowledge, and the prevailing low standard of life, I do not see what industries other than agriculture could be launched or run successfully against the competition of cheap, foreign, machine-made articles turned out by the million. Reviving old, dead or decaying industries or starting new ones can be thought of only—

- (1) if import of foreign competitors in the field of the necessities of life is stopped, or,
- (2) if, owing to a rise in the standard of life or on sentimental or æsthetic grounds, special tastes for locally made or indigenous articles are created. Mass production or foreign competition has no scope in such cases of special or individual taste.

If the standard of life rises, people in the interior will build houses and use more furniture, thus encouraging builders and carpenters and smiths. There is no fear of foreign competition in these industries. But how can such industries thrive when, for the average cultivator, to have some thatched roof over his head and a small *khatia* on which he can lie down for rest after even one hearty meal a day, is the height of all bliss and when all his energy and resources are used up in securing this much.

15. Again if the danger of foreign competition is safeguarded, cotton and jute-spinning and weaving and sugar-making can be

encouraged in most parts of this Province. Whether sound politics and economics would warrant a tariff discouraging the import of cloth and sugar is a matter with which we are not concerned here.

16. I believe that there is in the south of this division most of the raw material that is needed for glass and china clay industries. They can be started at various places on a small scale and ought to have a fair local demand (at least in the towns). But although one comes across experts who possess the required technical knowledge and who are ready to start the industries, one does not find a capitalist who would readily finance them. Culture of lac and making lacquer articles is an industry which it ought to be possible to make a success of in south Bhagalpur. Some lac is grown there. But the output is infinitesimal. I am told that brood lac does not thrive so well in these parts as in Chota Nagpur. Efforts have been made to propagate its culture on some scale but in vain. This is a matter where Government experts ought to be of assistance.

17. There is no reason why a large number of agriculturists should not keep poultry and add to the family income. The objection which orthodox Hindus have to keeping fowls is stupid. It should disappear with spread of education and general knowledge. In southern India, Hindus who are not strict vegetarians have no objection to keeping poultry. Their co-religionists in northern India might profitably follow them and keep fowls as well as ducks and pigeons to which they have no objection.

18. It should be possible with co-operative efforts and with State aid to lower the rate of interest which obtains in the *dehat*. But a mere reduction of the rate of interest, without the general results of a co-operative credit society and the education imparted by it or without the land improvements which one hopes to see as the result of land mortgage banks, will not be an unmixed good. If other conditions in rural areas remain the same and if only the rate of interest goes down, the lot of the cultivator will be almost the same as at present. There will be no surplus of produce or saving wherefrom he could pay up the interest and part of the principal from year to year. If it is a case of *sudbharna*, it does not matter what the rate of interest is, and, in the absence of a surplus or saving, the cultivator will still be unable to redeem his land. This is the whole situation: if there is a good crop, prices are low and all that he can hope to do is to have a square meal for himself and his family after paying the *mahajan's* interest and the landlord's rent; if it is a bad year, he starves and leaves the *mahajan* and landlord unpaid; in either case there is no saving wherewith he could redeem his land once it is mortgaged. Freedom from debt is only possible by sale of a part or whole of his holding. But what is he to do without land? So he likes to keep it on, although encumbered with debt, hoping that the fates will be kind and some day he may be able to free it. Unless by "Better farming" and "Better business" the productive capacity of land is increased and the cultivator is not deprived of what ought to be his by those who supply him with

the seed or those who take possession of his standing crop or compel him to sell it in adverse conditions, and unless he is saved the loss of capital from which he is continually suffering, mere reduction in the rate of interest will not be of much use.

19. There is really no strong prejudice against the *mahajan*. Had there been any such prejudice he would not have been able to live in peace in the midst of enemies. He does not need any further protection from law. He is not always keen on securing the lands of cultivators as he is often supposed to be or as literature published by the Co-operative Department would make one believe. He knows that it will be years before he would get possession and would probably never enjoy it in peace. He prefers to make money and to see the interest swell up. And in satisfaction of his dues he would prefer to get cash to his debtor's land. He has to take care to insure himself against all risk of bad debts, law's delays, etc. That is why his rates are so high by 2 per cent. per month for cash transactions and 50 per cent. for grain loans, with repayment in kind after one season, being common in these parts. Considering everything, it may be said that, on the average, *mahajans* make a net income of approximately 12 per cent. per annum on the money lent.

20. I should not think that there are very large amounts of money lying idle in the districts.

21. At present *cash certificates and savings banks* are more popular in the towns than in rural areas. But even in the towns they are not attractive enough. The only effective way of making them more attractive would be to raise the rate of interest. But if they are made more paying it may have the effect of making Government securities unpopular and depreciating them. If the object is to draw into the net savings of the middle-classes and of the salaried or wage-earning (such of them as are a little better off) masses or of the artisans from the *mufassal*, the object could be better gained by making the saving banks instead of post-office cash certificates more popular. Somehow or other people in the *dehat* still fight shy of "Mere paper" like cash certificates and they also suffer from the disadvantage that people are cashing them at the least excuse. But savings banks encourage the habit of putting by small sums of money—which is all that the people described above can afford. As savings banks accounts have their restrictions as to maximum deposits allowable, etc., the upper classes or the wealthy few who invest their money in Government securities will still prefer those securities to savings banks. By pushing on savings banks there will thus be not much chance of Government securities depreciating. These savings banks might be a branch of post-office activities or of the proposed land banks.

22. There is, however, one possible result of any attempt to make savings banks or post-office cash certificates more popular in the *mufassal*. There are a few substantial cultivators who are not regular *mahajans* or money-lenders but who do lend money occasionally. If

these people find that they can get even six per cent. from Government they would not be very willing to advance money to cultivators as they do at present. And this may throw all needy cultivators who are not members of co-operative credit societies or whose requirements cannot be readily met by those societies into the clutches of *mahajans* more than ever. But I should not apprehend that the *mahajans* will raise their customary rates of interest or change their traditional methods. Their position is very strong and will be unaffected for years to come unless radical changes take place in the law of the land and the habits and health of the people and until there is "Better farming and Better business" all round. Just as our co-operative credit societies, although their number in the province can now be counted by the thousand, have not made the *mahajan* feel that his occupation is gone, similarly he will live and thrive in spite of post-office cash certificates and savings banks. It will be time for him to get nervous when we have a co-operative credit society in every village and land mortgage bank in every subdivision.

23. An ordinary *mahajan's bahi-khata* does mix up various kinds of transactions and this must be leading to much complication of accounts and to occasional fraud. It helps the *mahajan* in his favourite object of always showing something outstanding against his client. Summary reduction or disallowing of interest by laws against usury can, however, be got round, and all that the legislature can successfully do to improve the agriculturists' lot in this direction, is—

- (1) to insist on accounts being kept in a certain prescribed form, and
- (2) to insist on every transaction being attested by witnesses if it is intended that a court should take notice of it.

24. If these things are done, it should not be necessary to introduce *registration of licensing of money-lenders*. In the *dehat* every *bania* or *modi* and every substantial cultivator is an occasional money-lender. And very few money-lenders would register themselves or take out a license unless compelled to do so by law. Such a compulsion will involve distinguishing the professional from the occasional money-lender and must lead to abuses. But fair dealing which is an object of all such legislation can be encouraged by insistence on accounts being kept in a prescribed form and being properly attested.

25. Restriction of lending to productive purposes will be of no avail: it could be got round. Lending for non-productive purposes could however be discouraged to some extent if courts were empowered to discriminate and allow a higher rate of interest in the case of loans for productive purposes, say up to 7 per cent. against $3\frac{1}{2}$ per cent. for non-productive ones.

26. Finally I would strongly urge the necessity of steps (and special legislation if need be) being taken to prevent the *zulum* that is committed by "Kabuli" or "Pathan" money-lenders who are seen going about the country with a big staff in their hands. It should

be an offence (for some years, cognizable by the police) to go about collecting one's dues with intimidation or force or mere show of force. The country side would be much happier if these "Kabuli or Pathan" money-lenders are summarily extradited to where they come from. A *mahajan* may be a necessary evil. But the usual Kabuli or Pathan money-lender is a scourge to the country and a blot on a Reformed Legislature and a civilized Government.

Replies to the Questionnaire.

1. *a, b and c.*—In the Santal Parganas loans are obtained on *rokkas* (handnote) and *bahi-khata*. In other districts of the Bhagalpur Division, they are taken in the above manner and also on *sudbharna* (a kind of usufructuary mortgage).

The agencies other than *mahajans* and co-operative credit societies play no part in agricultural finance. Even co-operative credit societies play a very small part as yet. It is the *mahajan* who rules the situation. I should think that about 90 per cent. of the total yield of agriculture has in one way or another to do with a *mahajan*.

The main defects in the prevalent *mahajani* system is :—

The *mahajan* is often the supplier of seed, the purchaser of the crop and the supplier of money and grain for the agriculturist's business and subsistence. He charges a heavy return for his services of all kind. The result is that the agriculturist does not reap the full benefit of his labour, etc. And his crop is sold at the cheapest rate.

The remedies are :—

Education.

Improvement of the health and sanitation of the country side
(*see separate note*).

Opening more co-operative credit societies.

Establishment of land mortgage banks.

Legislation (*see separate note*),

and also encouraging hand-spinning and weaving as a subsidiary industry.

2. The agriculturist knows only one kind of marketing. If he is indebted to a *mahajan*, as he generally is, he sells his crop, as soon as it is harvested or even before, to his *mahajan* or to a *goladar* in the nearest *hât* or market place. If it is taken to a *goladar*, the *mahajan's* interest, if not both interest and principal, is paid off at the time of the sale in the *gola*. Very often the *mahajan* or his man attends the sale. The procedure is the same whether it is a crop wholly consumed in the country or exported.

3. To reach an estimate of the indebtedness of agricultural classes I would recommend a study of local conditions by special officers as described in my separate note.

But even after such a close and careful study in a certain limited area it would not be very safe to draw any inference about other areas. I do not think it would be possible to arrive at anything like an approximation for the whole province.

4. I would oppose the idea of a land mortgage bank taking the form of a local bank with a purely local directorate. Such local banks may do for artisans and for urban areas. But if they are to function as land mortgage banks also, the local directors would consciously or unconsciously aim at gradually buying up as much land as possible.

For rural uplift we want, among other things, land mortgage banks under the control and guidance of the Registrar of Co-operative Societies or some such officer of Government.

Oral Evidence.

Chairman: You are the General Manager of the Banaili Raj at Bhagalpur?—Yes, for the last four years.

And prior to that you held various appointments?—Yes, both as a District Officer and District Judge.

You say that summary reduction or disallowing of interest by laws against usury can be got round and all that the legislature can successfully do to improve the agriculturists' lot is to insist on accounts being kept in a certain prescribed form and to insist on every transaction being attested by witnesses if it is intended that a court should take notice of it. Do you advocate that all money-lenders should be obliged to keep their accounts in a prescribed form?—Yes, I should advocate that.

Would you include also the class of small money-lenders in the villages under the legislation you propose?—I have dealt with them also in my memorandum. If they want to derive any special benefits from courts, then in their own interest they should also come within the purview of this legislation.

What sort of special benefits are you thinking of?—It would be easier to convince the court that their transactions are genuine, and probably they will be getting more favourable terms than the court would otherwise allow.

You would not make it penal legislation, would you?—No, I would not make it a penal offence. By making it penal it would make it difficult to get money from the small dealer.

You are aware that in the villages union boards have been formed in some places and they have got some judicial powers?—Yes, they hold some powers under the Village Administration Act.

Do you think that it would be reasonable to leave the recovery of money by such small money-lenders to the decision of the union boards and thus keep them out of regular courts altogether?—Does it amount to giving these boards the Small Cause Court's powers?—I think it would be an improvement upon the existing state of affairs if you gave them this power.

Professor Batheja : In what respects will there be improvement?—Just as a *panchayat* vested with magisterial powers under the Village Administration Act dispenses criminal justice, being familiar with local conditions they would be able to dispense justice more expeditiously in small money transactions than civil courts.

Chairman : Have you had any experience of the working of these local union boards at all?—No, not personally. They were beginning to function when I had to hand over charge of my district.

Professor Batheja : Would there be any possibility of corruption in these courts?—I do not think so. There may be corruption in the sense that perhaps they might favour a particular individual, but I do not believe there will be much corruption in the sense of taking bribes.

How can that favour be prevented?—Would you advocate supervision of these courts in any way?—Yes, it would be better if there could be some sort of supervision.

What sort of supervision would you advocate?—Just as the District Magistrates have got the power of supervision, there can be some such agency.

Chairman : Do you think if the union board was entrusted with the duty of dealing with this sort of petty money suits, the *mahajan* would take care to secure his own election on the judicial committee of the union board?—I do not suppose he will succeed to a very large extent. He may not care to spend much money in all these matters by trying to get himself in, and after all, I presume, these elections would be by the vote of the majority which could be relied upon to steer clear of the *mahajan's* influence.

I understand you are not in favour of establishing licensed money-lenders?—No.

Professor Batheja : What is the point of your objection?—Just as I have said that it is possible to get round any legal stipulations against usury, so also it will be possible to resort to dishonest practices or abuse the power vested in these *mahajans*. I do not think licensing would prove much of an attraction to the *mahajan*.

Chairman : Even if a license carried the right to use the certificate procedure and facilities for getting finance?—I do not think so.

Therefore, you think it will be dangerous even to experiment in licensing this *mahajani* business?—I should think so. I have very seldom come in contact with a *mahajan*. I am only telling you the popular opinion about these people, and the information that I have gained about them.

Professor Batheja : On what grounds do you believe the complaints made against these people?—From the complaints that an officer in the mufassal often hears.

Will you be very much surprised to hear that in the course of our enquiries in the villages we did not come across much prejudice against these *mahajans* as a class?—That is just possible because nobody prefers to have an economic revolution in the country. These *mahajans* are performing some useful purpose and they are naturally considered a necessary evil. The villagers cannot do without them and that is the reason why they do not try to harm them in any way.

You do not deny that there are good and honest people also among the *mahajans*?—Of course, there are good men as well.

In the first instance then, can you not license these good men?—The point is how can you exclude others and how are you to find out the good men.

Could you not make enquiries and find out from the bigger *mahajans* who really are the good ones among them and you could very well supplement this information through official enquiries as well?—If the Committee has been advised to make an experiment that way, I would have no objection to doing so by way of experiment if you think it also advisable.

And if money is also made available to these licensed *mahajans* at a lower rate interest, will they not gradually supersede the older type of the *mahajans*?—It seems possible, but I am afraid it will take a very large number of years. I suppose you are thinking of the educative process.

And if the existing *mahajans* are also supplemented by a new class of licensed *mahajans* then the process will be rather quicker, I suppose?—I do not think the process will be made quicker.

Were not difficulties experienced in popularising the co-operative movement in the villages in the first instance?—There we approached the people direct. There was more ground for hope because people in the interior in olden days used to deal as a corporate society.

Are not the operations of a co-operative society more difficult than the operations of a licensed *mahajan*?—Yes. Operations of the type you are contemplating would be easier in the case of a licensed *mahajan*.

Chairman : Would it not be easier to get 50 individuals in an area to undertake the duties of licensed *mahajans* than it would be to create 50 societies in the same area comprised of 20 or 30 members in each?—If the choice is given to me I would prefer to organise 50 new co-operative societies. It would be easier to organise these societies than to find out 50 honest *mahajans*. It is all a matter of one's feeling.

Professor Batheja : Do you not think that the conditions involved in the idea of having licensed *mahajans* would inspire confidence in their minds?—It might, but I have my own misgivings.

If an agricultural bank were started to finance these licensed *mahajans* would it not be possible for such a bank to lend money to these *mahajans*, at say 9 per cent. granting that the bank has the Government support behind it?—At what rate they could borrow then?

Would it be difficult to borrow in the open market at 6 per cent.?—It should not be difficult if it has the Government backing behind it.

Chairman : Is it not a fact that a large part of the existing loans for agricultural purposes are actually repaid after six months and then loans are not renewed for the rest of that year?—Yes.

Then you will agree that these agricultural banks who are to finance the *mahajans* will have to find some outlet for their funds during the offseason?—Yes, there will have to be dove-tailing between the two.

Professor Batheja : Does the time when the agriculturists require money coincide with the period when the town people require it?—I do not know about that. I am not an expert in these matters.

Chairman : You advocate very drastic action against the *Kabuli*. Do you think that the *Kabuli* does widespread business in your part of the Province?—Yes, they are doing fairly widespread business.

Do they take any very prominent position in the actual financing of the *raiya*s?—They are mostly dealers in cloth and they are doing also the money-lending business.

You are aware that in most countries there are classes of unscrupulous money-lenders who manage to live there?—At any rate, I do not think they will stoop to such heinous ways as the *Kabulis* resort to. It was only the other day that between Bombay and Poona the Station Master of a way-side railway station was actually murdered by these *Kabulis* because the poor man reported the matter to the police that he was harassed by the *Kabulis* as he did not repay the loan promptly.

Professor Batheja : Do you think there will be a hardship on the agriculturists if the *Kabulis* or the *Pathans* are eliminated from the villages?—There will be no hardship whatsoever.

Is there enough capital in the villages besides what the *Kabulis* can supply to the *raiya*s and others?—There is enough of capital.

Then why is it that people go to the *Kabuli* for his loans?—Because these *Kabulis* do not ask for any security for their advances. And it is for realising their dues that they resort to harassment.

What sort of legislation do you advocate against these *Kabulis*?—I have suggested a more vigorous application of the law of intimidation under the criminal law.

Chairman: Is any change in the criminal law required?—Perhaps a change in the procedure may suffice, e.g., the police may be empowered to treat such offences as cognisable.

Professor Batheja: You suggest that unproductive loans may be discouraged by the courts allowing a high rate of interest. How will the courts be able to discriminate between the two kinds of loans? Could you suggest any definite criterion?—That will depend mostly on the evidence in the case.

Would you define it in law what a productive and what an unproductive loan is?—I think it will be possible to do so.

Would it not leave too much to the discretion of the judge?—It would.

And do you not think that the *mahajans* would also devise means to evade the legislation you suggest?—They might do so.

Chairman: You advocate the starting of co-operative *golas*. Have you any experience of them in your districts?—Yes, to some extent in Sambalpur, when I was the Deputy Commissioner there about five years ago.

Were they working then?—They had discontinued their operations for some time. There was very little actual work done in my time. But the whole mechanism of working was there.

Do you know whether they were actually engaged in selling the surplus grain or merely taking in seed grain and lending it out?—It was the latter function they were doing.

Have they developed in any way since?—I do not know.

For what kinds of grain are you supporting the idea of having *golas*?—Mostly paddy, because that is the most important cultivation in Bihar. Of course, there are a few *rabi* areas as well.

Do you anticipate that there will be much trouble about grading paddy?—At present there is no agency that would do it. There should not be any difficulty. After all, the classification could be made into two or at the most three grades.

Professor Batheja: Do you think business capacity is forthcoming for running successfully co-operative sale societies in the villages?—Experience in the beginning was unfortunate but later reports are more hopeful.

Do you know of any co-operative sale society in this Province which has proved successful?—Not that I have heard of but I believe it would be possible.

Would you be surprised to hear that those that were started have failed?—I would not be surprised at all, but still I think the experiment ought to be repeated.

Can you explain your suggestion that Government servants or officers of co-operative departments may be appointed as *goladars*?

What functions do these *goladars* perform?—These *goladars* have to keep a strict watch on the stock and keep regular accounts.

What class of officers are you contemplating?—Of course they need not be highly paid men. If they are paid between Rs. 50 and Rs. 100 per mensem, that would suffice. My apprehension is that it is mostly “human rats” that eat away the profits and so it is I advocate that better class of people should be appointed to control these *golas*.

You think that the co-operative sale societies of the ordinary size will be able to bear a monthly charge of about Rs. 100?—I think it is possible.

Chairman : Would there not be possibly a difficulty that in order to have a sufficiently large turnover you must keep an agency for bringing in stock from a fairly considerable range?—I do not think the range will have to be very large at all.

What sort of agency are you contemplating for collecting the stock?—The members or the villagers themselves could do it.

Professor Batheja : Are there not village *beparis* also?—There is no need for intermediaries. You can expect the villagers themselves to bring the stock to the door.

Do you think there is any possibility of loss in certain seasons on account of the fluctuations in the market price of rice?—Generally there should be no loss except on very rare occasions.

Chairman : Is it not better to get hold of a trained *goladar*, a man who was already in the business, for these sale societies?—Certainly it would be better if you could get hold of a reliable person.

Professor Batheja : Would you be able to get a man on the salary you propose?—I should think so.

Chairman : I see you are in favour of land mortgage banks, and you would advocate it for the benefit of the landlords?—Yes, for the benefit of the landlords and the more substantial cultivators.

Professor Batheja : You are not in favour of starting land mortgage banks for the benefit of the smaller agriculturists?—No, I think they could be covered by the co-operative banks.

Chairman : Do you not think that it would be advisable and necessary to organise a separate branch in the central co-operative banks to deal with loans for long-terms on mortgage, or do you think the present practice of mixing up the two is sound and safe?—I think it would be better to separate the two functions, because it will be better to separate it from the joint liability idea.

Then the central banks and the primary societies would be lending long-term loans without unlimited joint liability?—Yes.

Professor Batheja : Would there not be difficulty in raising funds without the principle of unlimited liability?—I have not myself suggested that these central co-operative banks should do this work.

Chairman : Do you think that that business should be divorced as far as it could be from the business of short-term loans although conducted by the same central bank?—It should be separate as much as possible.

Then what sort of organisation would you advocate for the land mortgage banks for the larger land owners? Would you have one central authority for Bihar or would you have independent banks established in each district?—I should begin with one bank for each division with a directorate composed of big people and representatives of the central supervising agency. The Registrar of Co-operative Societies may look after these banks as another branch of his department.

Professor Batheja : Many co-operators have told us that land mortgage banks would be opposed to the co-operative movement. What is your view?—They possibly think that the interests of the two will clash and that co-operative movement would in the long run suffer. But my own idea is that the land mortgage banks would be serving the interests of a totally different class of clients.

Would you have an apex bank to finance these divisional banks?—Yes, because in cases of shortage of local capital they will have to go to an apex bank or Government for their requirements.

At what rate of interest do you think these land mortgage banks could borrow their requirements?—I have suggested that the land mortgage banks may borrow up to a maximum rate of $6\frac{1}{2}$ per cent. and the apex bank then will have to raise funds at 5 or $5\frac{1}{2}$ per cent.

What do you think should be the rate of interest that the actual borrower from the land mortgage bank will have to pay for the money he borrows?—It should not be more than 9 per cent.

You do not think the scheme will be attractive at all if the rate of interest is increased?—No.

Granting that the apex bank is able to borrow only at about 6 per cent. then at what rate you think they will be able to lend the money to the divisional land banks?—The divisional land banks can also attract deposits at 6 or $6\frac{1}{2}$ per cent. in which case they will be able to finance their borrowers at about 9 per cent. or less. After all we have heard it said that the overhead charge of a well-established bank is only about 2 per cent.

Chairman : You think that no one could reasonably bear more than 9 per cent. interest for a loan extending to, say fifteen years?—It would not be sound business to give more than 9 per cent.

You know that these long-term loans are not only intended for effecting improvements in land but they are mainly used for wiping off existing indebtedness?—That is so.

Professor Batheja : On the other hand you must admit that the land mortgage bank will have to keep a very extensive and intelligent

staff of valuers?—Why should it be necessary to have a large staff? As far as I am aware there will not be much difficulty at all in getting valuers. Any ordinary cultivator will know the price of land in his neighbourhood.

Chairman : Would there not be a good deal of difficulty about ascertaining whether there is any clear title?—Ordinarily a search in the Registration offices would be sufficient and in about two weeks' time details could be ascertained, about title, etc.

You have a considerable amount of experience of having searches made in the Registration offices in the course of your business as Manager of the Banaili Raj?—Yes.

Such searches would seldom cost more than Rs. 10 and as a rule cost considerably less?—Yes. And the amount is not proportionate to the value of the transaction.

The actual search is conducted by the Registration officers and a certificate is handed out to you showing all entries that have been made against that particular property or person and the names of the parties who hold a mortgage on the same, if any, etc.

And the search occupies not more than a week?—Yes, ordinarily.

Have you ever come across cases, in which such certificates have been found inaccurate?—No, none at all. The only difficulty, if any, would be to find out whether the borrower has any dependents, whether there are any minors, etc.

Do you think that it will be a great injustice to anybody if when a loan application has been put in by the head of a family and the loan has been granted by the land mortgage bank, there should be a strong presumption that it was for the benefit of the family and could not be challenged hereafter by the minors?—There will be some difficulties only in the case of people following the *Mitakshara* law of inheritance among the Hindus in almost all provinces of India.

Would this bank you propose run on the lines of the *Kist-Koti*?—I do not know what a *Kist-koti* is.

Professor Batheja : You say the success of a scheme by which the zamindar lends to the tenant depends on the goodwill of the zamindar?—Yes, he should be sympathetic to the tenant, but the scheme should be economically sound.

Do you not think that in the case of absence of sympathy the combination of zamindari work and money-lending to the tenants would lead to too much concentration of power on the landlord?—I would not say that.

At any rate, would you regard it as undesirable? Would it not check fragmentation of holdings?—It may be undesirable as it would help zamindars to buy up lands but at the same time I do not understand how it will help to check the fragmentation of holdings.

Chairman : You say that one of the difficulties of the land mortgage bank in realising its dues would be minimised to a certain extent if the provisions of section 145 of the Criminal Procedure Code are amended. Is there to be an actual amendment of the law or would it suffice if courts were to take a commonsense view of the case?—The law says that if a man is in possession we have to keep him in possession. When there is a decree of the civil court, the criminal courts should be bound to respect that.

Then you say that it should be enacted that every transferee of or successor to land must get his transfer or succession entered in the record-of-rights. That amounts for all practical purposes to maintenance of the record-of-rights, does it not?—Yes.

It would be expensive?—Of course it will be, for we have no Government village agency in the permanently-settled areas.

Did you find in Sambalpur such maintenance was effective?—It was expensive but the cost of maintenance was distributed all over the district.

You say that a mere reduction of the rate of interest without the general results of a co-operative credit society and the education imparted by it or without the land improvements which one hopes to see as the result of land mortgage banks, will not be an unmixed good. Are you afraid that any attempt to reduce the rate of interest without at the same time teaching the people habits of thrift and so, would result in the dangers of facile credit?—That is partly what was in my mind.

Would not the reduction in the rate of interest necessarily improve the *raiyyat's* resources?—It may, but he will be again borrowing.

Supposing a man now has to pay Rs. 45 a year for interest and that is cut down to Rs. 25, would that not increase his resources considerably?—All depends upon the individual. At any rate it would not make any difference in the case of a *Sudbharna* mortgage.

Professor Batheja : Do you think that agriculture in your part of the country (in Monghyr and Bhagalpur) is in a state of insolvency?—I think it is still a paying thing, but for certain adverse factors that come in now and again. The soil is good and the rainfall generally sufficient.

Do you think the pressure of the population is too much?—I do not think so,—not in the Bhagalpur Division.

Do you think that agriculture by itself does not pay enough and it does not pay to meet all the requirements such as interest charges, etc.?—I think a well-to-do man can make it pay.

If the percentage of the families of the agriculturists is taken in Bihar you will find that it is very large and that most of the agriculturists are in debt?—I can say that about 90 per cent. of our agriculturists are in debt. I have verified that. My Assistant Manager has told me that it is the higher class of tenants who are more in debt than the lower classes.

Chairman : We obtained a considerable amount of evidence at Bhagalpur about the actual indebtedness of the *raiya*s in the various places. Do you think that on the whole we have got an exaggerated account of the indebtedness?—I do not think so. As far as I am aware, I think you got a true state of affairs obtaining there.

Do you think that on the whole the *mahajan*s actually realise the rates of interest that they show in the books?—If the borrower goes up to the *mahajan* to settle up the accounts, then the *mahajan* usually allows a rebate in the rate of interest. But if the *mahajan* goes to court for realising his dues, then the court sometimes reduces the rate of interest if it finds it too high. But in cases of other settlements without going to courts, the full rate of interest is realised.

Professor Batheja : You do not think that the general indebtedness will decrease if the rate of interest is decreased?—It may decrease to some extent.

Do you think that with a certain amount of propaganda amongst the *raiya*s, you would be able to induce them to buy postal cash certificates, or invest money in the savings banks?—They would not favour the idea of purchasing cash certificates but those who can would probably put in the postal savings bank.

You say that if people could find that they could get 6 per cent. from Government they would not be willing to advance money to cultivators, but would probably invest their money in postal savings banks. What classes of people you are thinking of?—I was thinking of people who are not professional money-lenders (mainly middle class men) who lend out money on occasions. They might probably do so.

But do they not ordinarily get a greater return from local money-lending than by investing in the post-offices?—Not the man who is not a professional *mahajan* or money-lender.

But do you not think that any man who has surplus will do money-lending?—Yes.

In these circumstances, do you see any chance of these men investing money in postal cash certificates or the savings banks?—Yes, if the rate of interest is raised then probably they would do so. But there is another class of small artisans or the salary-earning class who would probably put in a little of their savings, as they do at present, in the savings banks. They will prefer this to risky village money-lending.

What rates of interest would you suggest to make these deposits attractive?—Cash certificates are paying about 5 per cent. even now and the savings banks also should be made to pay between 5 and 6 per cent.

Babu JUGUL KISHORE NARAIN, M.A., B.L., Munsif, Patna.

I have confined my attention to the portion of the memorandum dealing with indigenous banking and have attempted to answer only the

oted in letter no. 211-22, dated 31st August 1929, to the
 idge of Patna, and some other questions connected with it.
 Besides this, I have also attempted to answer some of the additional
 questions framed for the Bihar and Orissa Provincial Banking Enquiry
 Committee. I need hardly say that it is impossible to do away with
 the indigenous bankers of the country.

There is no doubt a school of thought which honestly believes in
 the complete abolition of the indigenous bankers in the immediate or
 near future. They are so disgusted with the atrocities of the money-
 lending class that they would do away with the whole lot. With the
 followers of this school the indigenous banker is practically an
 unmixed evil. But the question is, is it practicable to do away in the
 immediate or near future with all the indigenous bankers or money-
 lenders? Secondly if it be possible, is it desirable to do so?

In order to solve this problem we have to take into consideration
 the immense area and the peculiar condition of the country. An idea
 of the vastness of the problem may be gained by remembering that the
 population of India exceeds 318 millions, that the bulk of this population
 is held by the villagers, that about 73 per cent. of the population depend
 on agriculture for their livelihood and are impervious to new ideas
 because of their narrow bounded isolated lives, and that the village
 finance of agriculture and cottage industries is almost exclusively in the
 hands of village money-lenders, inasmuch as there are no joint stock
 banks in the villages, that only relatively few villagers have co-operative
 credit societies and even where a society does exist it meets usually
 only a very small part of the credit needs of the villagers, so that to think
 of the disappearance of all indigenous bankers and money-lenders in
 the immediate or near future is to imagine an impossibility. Even,
 however, it be possible to do away with the indigenous bankers by
 State legislation I do not think it would be desirable.

We cannot adopt this drastic step unless we bring about a better
 agency to take the place of indigenous banking which it would be
 difficult and almost impossible to provide so soon. If then it is not
 possible to build a superior machinery for rural credit in the same short
 period which it would take for the indigenous bankers to disappear we
 are driven to the conclusion that such a step is not desirable. So that it
 follows that a complete disappearance of the indigenous bankers and
 money-lenders in the immediate or near future is neither practicable
 nor desirable and we are glad the Committee or the Government appear
 to have no such idea.

Now if the indigenous bankers and money-lenders are not to
 disappear wholesale in near future they must have a place assigned to
 them and we have to determine what this place is going to be. In order
 to remedy or remove the evils associated with indigenous banking
 which have made it so unpopular that there are responsible persons
 demanding its complete abolition we must have a clear idea of the
 present practices and present position of the indigenous bankers.

In discussing the position of indigenous bankers with a view to the framing of programme for preserving them we have to bear in mind that the idea to preserve them is only a means to an end. Our ultimate goal is the establishment of a sound banking system with a net-work of modern credit institutions and credit facilities available to each and every secluded villager. We have to evolve a scheme of banking in which the indigenous bankers might have a proper share and what is therefore required is a sound constructive work keeping pace with the march of progress.

The system of indigenous banking in this country is of ancient growth. The researches reveal that the giving and taking of credit in one form or other must have existed even in the Vedic period. *Rna* (debt) is repeatedly mentioned from the Rig Veda onward. Reference is often made to debts contracted at dicing. To pay off a debt was called *ranamsamni*. Ancient scriptures further sanction the taking of interest and the legal rate of interest is set at 15 per cent. Vasishta as well as Manu have fixed the following scale :— Brahmins 24 per cent., Kshatriyas 36 per cent., Vaishyas 48 per cent., and Sudras 60 per cent. Thus it is established that over two thousand years ago a system of money-lending existed in which definite rates were prescribed not according to the natures of the transaction but in accordance with the particular caste to which a borrower belonged. But this does not mean that usury went uncondemned. In the Jatakas the condemnation of usury can be seen “hypocritical ascetics are accused of practising it”. From Manu’s writings it further appears that even deposit banking existed in the early period. People were enjoined to make deposits with bankers of good repute. “A sensible man should make a deposit with a person of good family, good conduct, well acquainted with the law, veracious, having many relatives, wealthy and honorable” are the laws of Manu.

Tavernier’s account of India shows that an indigenous banker was to be found in the Moghul times even in the villages and he performed the additional function of a money-changer which yielded him good profit. Some light is thrown on the business of an indigenous banker by the then system of currency and coinage. Tavernier also mentions how the foreign trade of the country was financed partly by cash and partly by bills drawn on Surat and payable in two months : “at Lahore on Surat the exchange goes up to $6\frac{1}{2}$ per cent., at Agra from $4\frac{1}{2}$ to 5 per cent., at Ahmedabad from 1 to $1\frac{1}{2}$ per cent., at Sirouj to 3 per cent., at Barhanpore from $2\frac{1}{2}$ to 3 per cent., at Dacca up to 10 per cent., at Patna from 7 to 8 per cent., at Benares up to 6 per cent.” It thus appears that the indigenous banker in the Moghul period played an important part in financing the trade of the country by means of credit instruments. But what is more striking is the service they rendered to the State as officers of the Royal Mints and by advancing to the Royal treasury large sums of money in times of national need. When the English traders came to India in 17th century, indigenous banking system was thus already established. But while they require

some machinery to satisfy their credit needs they could not easily make use of the indigenous system. While the indigenous bankers had no experience of the finance of western trade, the English traders on their side were not conversant with the language of the indigenous bankers. But still there was an attempt to overcome these difficulties, as appears from the remedies which were adopted. The English merchant houses which were established in Calcutta took upon themselves the business of banking in addition to their commercial and trading activities. The importance of forming connections with the indigenous bankers was realised, as can be seen from a letter which the Court of Directors wrote to Fort St. George in 1667 in which a reward of 20 pounds was offered to any servant or soldier "as shall be able to speak, write and translate the banian language and learn their arithmetic".

But unfortunately in spite of this good intention on the part of the English merchants the indigenous banking business received a blow on account of the wars and chaos which marked the latter years of the 17th century. But in spite of the wars the indigenous bankers contributed their share. In 1759 Clive entertained Jagat Seth for four days at a cost of Rs. 17,374. In 1768 the Court of Directors directing that the debts due by the Government to the Seth be paid remarked, "that the family who have suffered so much in our cause are particularly entitled to our protection". The Bengal District Records of the 18th century show that the revenue was collected through the agency of the indigenous bankers. By the end of the 18th century there was an appreciable decline in the position of the indigenous bankers on account of the incessant wars and the unsettled conditions of life which marked those days. The fact, however, remains that somehow or other the indigenous bankers have kept up their existence up till now in spite of the vicissitudes of fortune they and their country had to undergo. We have now got so many joint stock banks in the country but the indigenous banker has maintained a separate existence for himself. These two important members of the Indian money market have remained in mutual ignorance of the doings and methods of each other and what is most unfortunate no concerted effort has yet been made to co-ordinate them and the new banking institutions have not entered into the lives of the people and have not penetrated into the villages which hold the bulk of the Indian population. They have made no attempt to assimilate the time-honoured traditions of the soil on which they are planted. In my opinion the working of these institutions in utter ignorance of each other is a great handicap to the progress of Indian economic regeneration and Indian statesmanship must plan the amalgamation of the two at an early date.

Before I consider this problem I must give an idea of the system of indigenous banking as it exists to-day. Strictly speaking, there are not so many of indigenous bankers in this country as distinguished from indigenous money-lenders. So far as money-lending is concerned anyone and everyone has taken to it. Anybody who has little money

in his hand has the temptation of lending it out to his neighbours so as to increase his resources and capital by the interest thus earned. But this is not the case with indigenous banking. The principal caste engaged in banking is the Vaishya caste which includes the Jainas, Marwaris and Chettis who are the most important bankers in India. In the Punjab we have also got the Khatri and the Arora bankers. Then we have some minor banking caste, such as Shikarpori, Multanese who flourish in Sindh and the Rehtis called Bohras who are to be found working chiefly in Gujrat and in the North-West of the United Provinces. The functions of an indigenous money-lender are too well known. His business is to make advances and he lends money, corn seeds or cattle to agriculturists sometimes on the security of produce or other movables or of immovables and sometimes on no security other than personal. Even to non-agriculturists he sometimes lends in cash or kind. An indigenous banker in addition to doing what the ordinary money-lender does receives deposits either on current accounts or on fixed terms on which he allows interest, gives cash credit and deals in bills of exchange, *hundis* of both kinds, demand and usance. But the great majority of indigenous money-lenders and bankers combine with their business of money-lending or banking various other businesses. The allied businesses are very often primary and the business of money-lending occupies a secondary position. This tendency has become more pronounced in recent years and the change may be accounted for by two facts. Indigenous bankers in consequence of their antiquated methods, the unifications of the modern currency system, the provision of the remittance facilities and the formation of credit societies have been losing ground in banking and have to fall back upon other means of earning livelihood. In my own locality I know of no man who is banker *qua* banker or a money-lender *qua* money-lender. In the second place with the improvement of industry, trade and commerce which is gradually taking place in this country the indigenous banker's business in these channels is naturally extending. In my own district and in most of other districts of Bihar proper a money-lender or banker is also a land-owner, the acquisition of land having often been the natural result of his money-lending business and in some case the money-lending business being the natural result of a saving out of income from the landed properties. It very often happens that a security which a money-lender accepts is agricultural land, some of which ultimately passes into his hands and in course of time he finds himself a land-owner. In the villages we find it too often that the money-lender is the local zamindar, owning lands on his account. The village money-lender is also sometimes a petty shopkeeper and a purchaser of rural products. So we find that the bankers *qua* bankers are not many in the country including this province as compared with the bankers-cum-traders and bankers-cum-land-owners. The two striking examples of the former are the Nattukotai Chettis of Madras and Multani bankers of Bombay. The Nattukotai Chettis confine their activities to banking and money-lending only and the

Multani bankers are specially dealers in *hundi* carrying on extensive business which yields them good profits.

In my own Province or district there are money-lenders, and the number of bankers is negligible. Now let us see what are the services rendered by those indigenous bankers or money-lenders. The large scale industries are not assisted by the indigenous bankers' inadequate measures or in a satisfactory manner and that is due to the bankers' ignorance and his out-of-date methods. The money-lenders know little about the finance and the organisation of the large scale industries and from personal experience I may say that even the most monied banker or money-lender is reluctant to hazard his money for institutions like these which in his opinion may fail any moment. It is an instance to show how much the banker or the money-lender is steeped in ignorance. Of course, it cannot be gainsaid that there are money-lenders or bankers owning shares in some mills and large scale industries but the total capital of the money-lending class invested in this way is quite inadequate. Industrial firms from their nature need long-term credit which cannot and should not be met by short-term deposits from individual bankers and the financing of industrial undertakings is therefore a matter for special banking institutions which can offer long-term advances. But what the indigenous bankers might do to help the industrial firms is to make advances for short periods on security of goods under their control. The cottage industries are no doubt helped by the money-lender. I can say that in the whole Province there is no artisan who has got money of his own and for his business he is compelled to borrow and goes to the local money-lender. One of the causes why the artisans cannot improve their lot is that the money-lenders' terms are such as to leave little to the borrower out of the fruits of his labour. The usury practised by the money-lenders in their dealings with the village artisans who are doing their best to preserve the ancient Indian skill is really regrettable. The village weaver is a regular bondman to the village money-lender who has absolutely no sympathy for his skill and would not allow him to get out of his clutches. In big towns like Patna and Bhagalpur we, however, find that so far as the financing of the internal trade is concerned the credit lies with the indigenous banker. He enables the agricultural and industrial produces of the country to be brought to the market by acting as commission agent and by issuing demand *hundis* to the traders and by discounting their *hundis* and thus enabling them to send money to trading centres. The shopkeepers in towns depend on the indigenous banker for money and for the help the money-lender is rendering to the retail shopkeeper, he is performing a useful function. Even a big merchant arranges to get goods from big trade centres through the local *aratias* or brokers. The merchants deposit some cash with the brokers and brokers who are also bankers discount their customer's *hundis* or grant them credits in their books, purchase goods from the wholesale dealers of their towns and consign them to their customers. The *aratias* generally make a good profit out of their business for they charge brokerage as well as interest on book credits allowed or discount

on the *hundis* discounted and in addition receive trade discount from the wholesale dealers on the goods purchased for their customers. The brokers generally employ their own funds in the business but in busy seasons they have to raise money by endorsing their customers' *hundis* and rediscounting them with the joint stock banks.

The ordinary merchant class in this Province have little to do with the joint stock banks and so far as the villages are concerned the joint stock banks have not touched them in the least. Indigenous banking therefore plays an important part in financing the internal trade of the country. The financing of agriculture which is the primary industry of the country is almost entirely controlled by the indigenous banking agencies. I have to say here that most of the lands would remain uncultivated if the village *mahajan* does not come forward with seeds and money at the time of cultivation. In very few districts in Bihar we have got adequate irrigation facilities and in places where canals and satisfactory irrigation facilities are not to be found the cultivator can never expect to have good season for crop every year. Sometimes for two or three years I have noticed regular failure of crops in some localities and in such strenuous times the village agriculturists cannot look forward to anybody else on the face of the earth for help except the *mahajan*. Year by year he goes on not only borrowing seeds or cash for purchasing seeds for the purpose of cultivation but also something for keeping the body and soul together. Of course, the ultimate result to him may be disastrous but this situation he cannot help. In my own locality I know of very few agriculturists who have not to borrow and the large majority is in a state of regular indebtedness; for this situation the village money-lender is little responsible and if he is a money-lender free from malpractices which I would discuss later he is not at all responsible. Moral indignation has naturally been kindled against usurers but perhaps more emphasis should have been laid on this fact that the districts of Bihar proper are very thickly populated and the main industry agriculture is hardly capable of yielding sufficient income to the people for their livelihood, that it is a land of greedy borrowers, there being very few people willing to practise the virtues of thrift and forethought.

For the present I have only to point out that whatever the reasons may be the villagers depend wholesale on the village money-lender and the financing of agriculture is entirely in the hands of the village money-lender. This is the most important function if the indigenous banker or the money-lender which we have to bear in mind and those who advocate the complete abolition of the village banker or the money-lender have to think out a scheme for replacing him at once by a body which may do all what he is doing at present. This is an uphill task and the question of the abolition of the indigenous banker can therefore be hardly deemed to be practical.

In this Province the indigenous banker has hardly got to do anything with the external trade of the country. Though playing an

important part in the internal trade of the country he has little to do with the financing of the external trade.

The methods of an indigenous money-lender or banker are diverse and some of them are even objectionable on principle. The too common form is to make advance through promissory notes or pro-notes in which some of the money-lenders even require sureties. The next common form is bond. Advances are made through bonds executed by the debtors as also on mortgages of different nature. A common form of mortgage in vogue is the usufructuary mortgage which is generally the best form of transaction so far as the debtors are concerned. No interest is payable and the usufruct of the mortgage property is appropriated by the mortgagee in lieu of interest. This is a fixed term, say of 5, 7, 8 or 10 years for which the mortgage is intended to last and after that period the mortgagor has the right to redeem at any time he likes. The equity of redemption lasts for a period of 60 years. In my own locality in the district of Saran the agriculturists take loans on *Bahikhata* on which a practice has now grown to take the debtor's thumb mark. It is this practice of taking thumb marks which has extended the scope for dishonest creditors to commit mischief. Ignorant debtors pressed by the need of money sometimes take loans merely after giving their thumb marks on a blank paper and in case of default or ill-feeling between the creditor and the debtor the creditor has got the opportunity of developing the paper with the debtor's thumb mark into a handnote of any value he likes. In case of payment by the debtor of the dues within the period promised it may happen that the creditor instead of returning the exact paper with the debtor's thumb mark may return a bogus such paper. These are abuses which do exist but cannot easily be proved in a court of justice, where the debtor living in a debt, squalor and misery can hardly furnish the evidence necessary which is required for discharging the heavy onus which the law has placed upon him. The interest which is chargeable in my own locality in case of debts borrowed on *Bahikhata* is 1 anna 6 pies or 2 annas for every rupee for six months and the interest is added to the principal at the end of every six months. This rate cannot but be deemed to be excessive. In the district of Patna I have come across a peculiar kind of *Kistbandi* advances in which the amount payable in instalments is higher than what is advanced with interest in case of default at the rate of half anna per rupee or so. The terms of such transaction are sometimes entered in the creditor's *Bahi* by the creditors themselves and sometimes they are in the handwriting of the debtors, in the latter case being compoundable as they are seldom properly stamped. Besides this, we have got the pawning business, that is, the lending of money against the pledge of gold and silver ornaments. Interest stipulated in bonds including mortgage bonds is generally not so high as in the case of the various other systems under which loans are advanced by the indigenous money-lenders and what is most important in case of bonds specially those which are registered there is no opportunity for fraud or malpractice. We have also got prevalent the usual systems of loans in kind known as *savaia*, *dewhara* or *duna*. The cultivator

who needs grain for sowing or consumption purposes takes it as loan from the village money-lender contracting to pay at harvest times the same quantity plus 25 per cent. which the *savai* or 50 per cent. which is the *dewhara* or 100 per cent. which is the *duna*. In my own locality the *sarai* and the *dewhara* forms are mostly in vogue. In case of promissory notes I have come across different rates of interest ranging from 8 annas or 12 annas per cent. per mensem to $6\frac{1}{4}$ or $12\frac{1}{2}$ per cent. per mensem. In this respect the Peshawari Afghans are the worse sinners. They are as often usurers as pedlars and charge $6\frac{1}{4}$ or $12\frac{1}{2}$ per cent. per mensem of interest. The last form is the well-known form of *hundi* which alone is the only real credit instrument in indigenous banking. There are different kinds of *hundis* but generally a *hundi* may be defined as a written order made by one person on another for the payment, on demand or after a specified time of a certain sum of money to a person named therein. Like an English bill of exchange there is drawer, a drawee or a payee. In actual practice the *hundis* approximate more to cheques than to bills. These are the several methods by which indigenous banking or money-lending is conducted in this part of the country. One of the questions I have been called upon to answer is if there is a prejudice in my locality against the indigenous bankers. In order to answer this question we must have at first a sufficient idea of the helpless position in which the debtor stands. I have already indicated how the agriculturist finds it difficult to get rid of the situation in which his environments have placed him. It has only to be repeated that about 90 per cent. of the population is illiterate and about 73 per cent. is dependent on agriculture which is in a very backward stage. The productivity of the Indian cultivators is remarkably low. In the densely populated districts of North Bihar an agriculturist has on the average a very small area of cultivable land which can maintain him and his family. In ordinary years there is very little of surplus left. To apportion the amount gathered at harvest over the intervening period till the next harvest so as to meet the daily household expenses is a task to which the average agriculturist does not find himself equal. The natural consequence is that he has to borrow to make both ends meet. The indigenous bankers and money-lenders are generally the people who are well off and their customers are in miserable state. It is therefore easy for the former to dictate unconscionable terms to the latter. The extremely illiterate peasant has not got even the intelligence to perceive his creditors' machinations and misdeed and a more intelligent peasant who has got an idea of the atrocities of his creditor finds it difficult to get rid of him. If he can get a better class of creditors he would readily give up his village creditor and at places where co-operative credit societies have been opened has tried to part with his old creditors. An average debtor is not free from prejudice as against the creditors who indulge in malpractices. But from these observations it must not be supposed that dishonesty or fraud and irregularity are the accompanying features of all indigenous banking or money-lending. There are black sheep in every profession and the profession as a whole cannot be judged from

a few cases. In our attempts to find out how the average borrower feels towards his creditors we need not consider the economic aspect of the matter. We are not concerned with the question whether a loan is taken for a good purpose or bad one. I may say that the facile credit is really harmful. Whenever a borrower needs money he has only to approach his money-lender even though he has no security to offer. But the point is that a borrower can rely upon his *mahajan* and he is seldom disappointed in him. Both depend on each other, neither can do without the other. The relations on the whole cannot be deemed to be unhappy. Of course there are also cases in which a debtor after long association with a particular creditor has grown inimical to him. This is partly due to undesirable practices on the part of some creditors and partly to the fact that business of money-lending from its very nature gives rise to antipathy in the minds of such borrowers as cannot or do not redeem their liabilities. But even in cases in which the debtors have been disappointed in their creditors they have hardly the option of leaving him. I have personally known of some money-lenders, who are distrusted, abused and scandalised by their customers but still they cannot help approaching them for the simple reason that they of many persons have got funds available. There are creditors who instead of charging interest which may range from $3\frac{1}{2}$ to 100 per cent. except in case of *hundis* charge what is called an *abwab* or *nazarana* at the rate of 5 to 10 per cent. on the amount borrowed. My answer to the first part of the question no. 7 of the Provincial Banking Enquiry Committee questionnaire cannot be in the affirmative. There is prejudice against the entire body of indigenous money-lenders as a class. But very probably with the increase of knowledge and education the village people would like to part connection with their time-honoured creditors and money-lenders. That day, no doubt, is not very near. The second question that I have been called upon to answer is if these bankers are sufficiently protected in law. In my opinion they are sufficiently protected. There is hardly a single creditor who loses his money because the law does not help him. *Hundis* are seldom discredited in a court of law, accounts books are not lightly rejected as unreliable and promissory notes and bonds stand on even as much safer ground. The creditors instead of suffering from any legal disadvantage are more than sufficiently protected in law. The Negotiable Instruments and other Acts are all for their advantages and the authorities of the different High Courts are also to their advantage. The creditors cannot easily lose their money if they prove their transaction. There are High Court decisions in which it has been held that the court cannot rip up a contract unless it comes within the provisions of section 16, Contract Act. It is for the borrower to prove that the contract is vitiated under the provisions of this section. The onus is very heavy on the debtor and as I have already pointed out he cannot in every petty case furnish the required sort of evidence. The law as it stands at present therefore in my opinion affords a greater protection to the creditors than to the debtors. While answering question no. 10 of the Bihar and Orissa Provincial

Banking Enquiry Committee I will say that the Usurious Loans Act has not met the requirements of the debtors and adequate protection cannot be offered to them under the provisions of this Act. The answer to this question must therefore be in the affirmative.

The third question is : " Is there any legal or other facility which can be extended to them ? " The main defect of the indigenous banking system is that it neither controls nor is controlled by the joint stock banking system in the country. There are no regular liaison between the two systems and therefore no effective leadership in the Indian money market. The attempt should be to reorganise the indigenous banking system so that it may be co-ordinated with the other system in a happy combination. After the co-ordination the vast store of the dormant capital which lies in the country would be available for investment and the hoards which still lie in most of Indian homes would be attracted to the money market which will be a great advance towards the goal of the establishment of a healthy credit machinery for India. The only thing that has to be done relating to these indigenous bankers is therefore the attempt to unify them with the joint stock banks. While it is necessary for us to preserve the indigenous bankers we should not think of preserving them in their present position. If they are still permitted to continue their antiquated methods in the existing secluded manner our purpose would not be achieved. We have not only to preserve them but reorganise them ; and when the institution is not to be preserved in its present state we cannot think of extending any other legal facility to them. They have sufficient legal facilities and all sorts of other facilities in their own sphere. With a clientele steeped in ignorance they have certain advantages which the sooner taken away from them is better.

The fourth question is : " Are the dealings of this class of bankers with their clientele conducted on sound lines ? " My answer is in the negative. I have already indicated the manner in which an average money-lender's business is conducted and the uncertainty which prevails in the system is deplorable apart from the high rates of interest which are most often charged. But for the high rates of interest that are charged even in cases of adequate security the system and not the banker or the money-lender alone is to blame. The lower the interest rate a modern banking house can charge in loans consistently with safety the better it is for it in the long run, for the greater is the business which it can attract and the profit it can make. With an indigenous banker or money-lender the case is different. The higher the interest he can charge the more profitable he finds it, for his clientele is limited and of a dubious character. Moreover it is a matter of common knowledge that some of the money-lenders stoop to all sorts of malpractices. They too often exploit to the utmost the helplessness of the unlucky debtor and that must be condemned. In the circumstances it cannot be said that the banking business is conducted on sound lines. A sound system of banking or money-lending will mean a great deal to the natives of the country. Coming to the more specific occasions of borrowing there is first the uncertainty

of agricultural production to be reckoned with to which I have already referred. Failure of crops are not infrequent due to lack of rain or excessive rainfall besides scourges like insect pests and animal attacks. These uncertainties lead to wide fluctuations in the prices of agricultural crops and the net result is recourse to the money-lender.

The problem of the employment and under-employment is not gaining an importance in this country. There is a great competition for posts in the Government department. Other avenues are either crowded or not tried. These causes contribute to the dependence of an agriculturist on a money-lender. A cause from which the ignorant people suffer is the frequency of litigation. Petty disputes and petty litigations are too rampant in Bihar proper and that is another cause for borrowing. The Hindu law of inheritance according to which property is divided equally among the heirs lead to continuous subdivision of agricultural holdings with consequent diminution in productivity. The joint Hindu family system is also responsible for the contraction of debts. The indolent members live at the expense of the industrious ones and the spendthrift at the cost of thrifty. We have known cases in which some members have got into bad ways and run into debts. The debts incurred by a father are passed on to a son who cannot escape the liability unless he proves that the debt was contracted for an illegal or immoral purpose—an onus difficult to discharge and rarely discharged. Unlike other countries many loans here are sought for the purpose of satisfying social customs. The poor agriculturist who can hardly maintain himself would not hesitate to marry and produce children who will be married easily. The result is disastrous and feasts, ornaments, cloths, a dowry and presents have to be provided by borrowing. All these lead to unproductive loans and a very small class of loans which are incurred for purchasing seeds, manures or new implements or to replenish stock of cattle or to make land improvements can be termed productive. Such being the general condition of the people it is absolutely necessary that there should be a sound banking system with little room for fraud or malpractices. A sound banking system will be a boon.

I have already given a sufficient idea of the evils of money-lending. The evils of money-lending are also due to the fact that the system of indigenous banking does not attract deposits to an inconsiderable extent. The national savings of the country instead of being conserved together as bank deposits and made available for developing the national resources of the country be useless as hoards buried in the ground or in the shape of ornaments or jewellery. Another unfortunate feature of an indigenous banking is that relating to the absence of a discount market. The discounting of *hundis* plays only a small part as compared with the use of cash in financing the trade and industry of the country. The transfer of large amounts of currency from one centre to another is an antiquated method of finance involving much expense and trouble. The small use which is made of *hundis* means the absence of the most

effective means of connecting the indigenous banking to the joint stock banking.

The question is if these defects can be remedied by State legislation. There are Acts like the Deccan Agriculturists Relief Act, the Punjab Land Alienation Act and the Usurious Loans Act on the statute books but in my opinion these Acts are not sufficient to meet the requirements of the existing situation. In this part of the country the Usurious Loans Act is the only Act with which we are concerned and I shall presently deal with it. But before I deal with it I would like to record the constructive performance which I have framed for the future banking by which the existing defect would in my opinion be remedied.

As to the co-operative credit societies, nobody can question the utility of services they have rendered. But if it be asked whether the societies have at all succeeded in destroying the monopoly of the indigenous money trade the answer is in the negative. The money-lenders are still the masters of the situation and judging from a comparison of the total working capital of the co-operative societies to the estimated total indebtedness to the money-lenders the co-operative movement as yet covers only a comparatively small portion of the field. With people illiterate and unable to appreciate the meaning of co-operation one cannot expect better results than have been experienced. As things stand at several places an indigenous money-lender is preferred to a co-operative society because of the personal touch and appeal which he makes to his customer. The co-operative society is frequently looked upon as a State agency for granting loans and I have heard the secretaries and the managers of co-operative banks being referred to as Government servants. In Bihar and Orissa the heavy failure of societies in some years has been regrettable though the operation of dissolving the useless societies with the least possible delay is necessary to the health of the movement as a whole. The co-operative credit societies have to solve the problem of attracting capital. Until large amounts of capital pour into the movement the societies cannot hold their own against rival money-lenders. I would now record my programmes and also answer the question raised in question no. 7 of the Bihar and Orissa Provincial Banking Enquiry Committee. My programme is simply in theory. All that is necessary is that in every village and small towns the indigenous money-lenders and bankers may combine themselves on the joint stock principles thus pooling their capital resources and forming themselves into indigenous joint stock banks. The indigenous money-lenders will act as directors and paid employees of the bank besides earning dividends on their shares and interest on their deposits, if any. The bank will receive deposits, make loans and discount bills of exchange. These indigenous banks would create the much-needed banking habits among the people. Of course, the banks must be controlled by the Government and in the beginning the Government will not only have to take the initiative but will have to do a great deal for the furtherance of the movement. We know what and Government control mean. The people, be they

educated or uneducated trust every institution associated with the Government, but with all respect to private banks I must say that they are looked upon with some distrust. The villagers in the beginning will consider it unsafe to entrust their savings to any banking institution but as soon as they will know that the institution is backed and controlled by *Sarkar* (Government) they would consider it quite safe and come forward with their hoards. The Government control is sure to draw the dormant hoards and that in itself would be a great achievement. The increased resources of such an indigenous bank will enable it to lend out funds on reasonable terms and such a bank is bound to discriminate between productive and unproductive loans. The ultimate effect of this discrimination will be that the people will cultivate habits of thrift, self-help and labour. The establishment of indigenous banks is therefore to my mind full of potential good. I may here point out that so far as the districts of Bihar are concerned much of the dormant capital can be attracted to the indigenous banks if the indigenous banks allow interest at the rate of 8 to 12 per cent. per annum. In the beginning loans can be advanced by banks at the interest of 12 or 18 per cent. per annum and that also would be a great relief to the borrower class as compared with the rates charged by the money-lenders. Gradually the rates in cases of deposits as well as advances can be lowered down. To my mind the only way in which the existing defects can be properly remedied is by the establishment of indigenous banks. It will be a great change for the better. Of course if this scheme is not adopted the only other course is to set up a class of licensed or registered money-lenders whose operation may be controlled by the State. An Act like the Money-lender Registrations Bill which was moved in the Punjab Legislative Council in 1924 should be passed. Of course, there will be an attempt to evade the provisions of such a law and it is also possible that some amateur money-lenders or zamindars might be driven out. But in course of time the evasion might be detected and proper remedies might be thought out. And we are not anxious that all persons who are engaged these days in money-lending should be in the field. Some come in with their limited funds merely for the sake of usury and sooner they disappear the better. Only those who have sufficient funds take to this profession in a regular way and they would not give up their business because of the provisions of registration. There is therefore the next alternative scheme which I approve of. In my opinion there should be in the beginning very few restrictions on the activities of these registered money-lenders. Their lending should not be confined to productive purposes only. If the loans are confined to productive purposes only that would give ample room for evasion and both the lender and the borrower would join hands for evading the law. Of course this registration means a substantial gain to the Government. The account books kept by the money-lenders would enable the State to realise the income-tax to which the Government is entitled in law and the assessment whereof is evaded. I would now attempt to answer the 1st, 3rd, 5th, 6th, 8th and 10th questions for the Bihar and Orissa Provincial Banking Enquiry.

Question no. 1.—The native born inhabitants of this Province as well as of other provinces of the country are backward in banking activity. There is no special backwardness in this Province which does not exist elsewhere. I have already shown that there are very few indigenous money-lenders. There are few money-lenders who receive deposits and I have already pointed out that the people are reluctant to make deposits even in joint stock banks with which the Government have no concern. Much less they would like to make deposits with private banks. I know of some money-lenders who about 80 or 100 years back had banking business but they have no such business now though they are still called by the name of *Kothis* by which is meant a banking concern.

Question no. 3(a).—I think this can be safely done. There does not seem to be any objection to this scheme. The Government may very well undertake this business pending the establishment of private banks.

(b) The two systems can be easily linked together after the indigenous banks are established. Of course, so long as those banks are not established there might be some difficulty in linking the indigenous bankers to the post-offices but even at present it is not impracticable. Collateral security would be absolutely necessary and that would be a sufficient safeguard. I do not think it would be difficult to work out the details.

Question no. 5.—Some of the *mahajans* do sometimes mix up in a single account purely trading transactions with banking transactions. Separate accounts might be insisted on but that alone would not afford any substantial relief to the customers. Extortionate rates of interest would be charged on the money but even if the accounts are separated the separation is not likely to inspire any great confidence in the money-lending business, because an average customer, simple and ignorant as he is, can hardly think of two separate accounts with the same person though they relate to two different kinds of transactions. One *Bahikhata* is enough for one customer, and he does not bother if his trading transactions as well as banking transactions are entered in the same book.

Question no. 6.—I do not think this is desirable. The law of libel is certainly an obstacle. Besides that, the privilege might be abused. I do not think the indigenous bankers have suffered to any appreciable extent for want of such an information. My answer to this question is in the negative.

Question no. 8.—Yes, the general practice is to invest savings in land that has led to an increase in the price of the land. While the produce is generally on a decrease and the antiquated methods are hardly sufficient to cope with the diminishing return, the price of land is going up. It is certainly due to the fact that people invest their savings in land:

Question no. 9.—Indigenous banking is in this respect of great importance in urban industry, the small retail dealers and small

contractors obtain their finance from the indigenous money-lenders or bankers. To these joint stock banks are of no use. With the improvements in the indigenous banking the small retail dealers and the small urban industry would be substantially helped. The extortionate rate of interest would disappear and that means a great deal to them. At present it would be highly desirable if the State thinks out a plan of helping them with finance. The Usurious Loans Act must be amended and preferably recast as early as possible. The present Act hardly affords any substantial relief to the borrower class. If courts cut down interest and certainly they are always reluctant to allow the usurious rates that are claimed that is done more or less arbitrarily and not in conformity with the provisions of the Usurious Loans Act. The conditions required by the Act are seldom fulfilled and the materials which are required under the Act for cutting down interest are seldom forthcoming. The debtor is in too helpless a position to place before the court the materials required and it is never to the interest of the creditor to furnish those materials. The Act should be amended at any early date and a wide discretion should be allowed to the courts. The courts feel a serious difficulty in exercising their discretion at present. The cases in which this Act has to be applied are of small cause court nature and the courts should therefore be trusted to exercise their discretion properly. Except the Usurious Loans Act there is no other restriction on usury in force. If there is really any check on usury at present it is the idea of the courts to do justice.

Oral Evidence.

Chairman : You are a Munsif in Patna district?—Yes.

How long have you been a Munsif?—For the last nine years.

Before we touch your memorandum, we would like to put to you one or two points on which an officer in your position will probably be able to help us. Is it your experience in ordinary money suits that courts do not allow interest during the pendency of the suit?—In ordinary money suits we do not allow, but in suits where there is a contract as to payment of interest and a prayer is made that interest *pendente lite* should be allowed, we do allow interest even during the pendency of the suit.

What is the principle? Does the law forbid you from allowing interest?—The law is that we should ordinarily allow interest *pendente lite* if there is a contract rate.

And do you ordinarily allow it?—Yes, I do.

You told us that in ordinary money suits you do not allow interest?—I personally allow it with the least hesitation, in cases in which there is a contract rate, but in some cases when there is no prayer, for allowing interest *pendente lite* I sometimes do not allow it.

If you are satisfied that A has borrowed money from B at a rate of interest, why should not A continue to pay

stipulated rate until the principal with interest is repaid?—Yes, the court allows interest according to the contract rate, but after the decree is passed future interest is allowed only at the rate of 6 per cent. till recovery of the decretal amount.

What is the ordinary time of pendency of a civil suit of that kind?—Generally it takes about a year unless it is a small cause court suit.

How long does it take for the execution of the decree to finish?—Another six months and sometimes it extends to more than that.

Is that in the first court itself without taking into consideration appeals?—Yes, in the first court itself.

What is the duration of a suit in a small cause court?—Average about three months.

Do you exercise the powers of a small cause court?—Yes, I do.

Is there any difficulty about trying these money suits, or do you require any special knowledge of commercial practice, etc.?—There is no practical difficulty at all. In this Province especially most of the suits are on hand notes or *bahikhata*.

There is no justification for the idea that these suits should be dealt with by a special class of judicial officers?—I do not think it necessary in this Province.

In what other places have you been a Munsif?—In Shahabad, Banka and Muzaffarpur.

Were the suits at Muzaffarpur more complicated?—Title suits were more complicated than money suits.

Do you find the *mahajans'* accounts books credible?—There was a time when these books of accounts were kept quite properly without any fabrication whatsoever. But nowadays I find that in several cases such account books are fabricated.

Do you think it would be better to have the pages numbered, sealed and so on?—I think it should be done.

Professor Batheja: Is your experience of the methods of these *mahajans* and other money-lenders confined to courts alone?—No, I belong to the district of Saran and I know about dealings of these persons personally.

There are honest men among them also?—Yes, certainly.

Could you tell us what the percentage of such dishonest persons would be?—I should think there are more dishonest debtors than creditors themselves. I have come across debtors mostly who raise false pleas.

Is it not possible then that the *mahajans* generally resort to these practices only to save themselves from the clutches of such dishonest debtors?—That is so.

Do the *mahajans* generally use the blank receipts of their debtors?—Not as a general rule, but there are some very unscrupulous

people who use them adversely. Generally these creditors keep them as a sort of reserve.

Do they go to courts often?—They do not rush to courts at all unless they are forced to. They generally compromise with their own debtors, if possible, without going to courts.

Do they also reduce the rate of interest in order to avoid going to court?—Yes, they do if the rate of interest is high.

Do the *mahajans* make fraudulent documents in order to evade the provisions of the Usurious Loans Act?—No I have not come across any. The Usurious Loans Act is not applied without difficulty as I have said in my memorandum but the court sometimes lowers the rate of interest if it finds it too high, but this is not done in accordance with the provisions of the Usurious Loans Act.

What rate does the court generally allow?—Up to about 24 per cent. per annum.

Would you be surprised to hear that the court reduce it to even 6 per cent. sometimes?—That is the information which we have gathered from certain places. When there is a contract, I do not think the courts will ever lower the interest to as low a rate as 6 per cent.

Chairman : The case Mr. Batheja is referring to is about a transaction regarding the credit sale of cloth and the purchaser had agreed to pay interest at the rate of 9 or 7 per cent.—When no interest is stated in the contract, then the court can allow interest at 6 per cent., but in this particular case I do not know why the court reduced the contract rate of interest—unless there are other extenuating circumstances which made it do so.

Have you come across instances where the principal advanced is overstated sometimes and the rate of interest is also shown at a lower figure in the bond, in order to avoid the rigors of the Usurious Loans Act?—I have known instances where the principal is over-stated, but the interest remains the same. Even now what is known as *salami* is charged.

Professor Batheja : And is not the rate of interest also stated at a lower figure in order to avoid the court reducing the same. Then how can the creditor realise the enhanced rate of interest?—My experience is that the interest is not meddled with. It remains all the same.

Do you think that if the Usurious Loans-Act is strictly enforced, even then the *mahajans* will successfully evade the same?—I think so. I would suggest the amendment of the Act giving greater and wider powers to the courts.

Chairman : We were told by another witness that there is difficulty about selling a part of a mortgaged property. If a man mortgaged his interest in five villages and found himself unable to redeem the mortgage except by the sale in one village, he found it impossible to sell that village until he was released from the mortgage and the creditor was unwilling to release him from the mortgage until he got

the proceeds of the sale of one village and consequently there is a dead-lock. Is that the provision of the law?—The law does not create any obstacle of that nature. There may be practical difficulties in the way of the mortgagor but there are methods to overcome them; as for example, a mortgagor placed in such circumstance can, while selling one of the properties with a view to satisfy the entire mortgage, leave a portion of the consideration money equivalent to the amount payable on the mortgage in *amanat* with the vendee for paying off the mortgage and it will thereafter be the vendees' interest to pay off the mortgage.

What do you mean by ' *amanat* ' ?—In deposit.

As far as you know there is no provision in the Transfer of Property Act which would operate to create a dead-lock of that kind?—No, there is none that I am aware of.

Professor Batheja : You have suggested a scheme of organising indigenous bankers into joint stock banks. Do you think indigenous bankers could be persuaded to become joint stock bankers?—Not unless Government takes the initiative.

Would they get a larger return than they do at present by doing individual business?—It may be possible.

What sort of return do you expect from such a joint stock bank?—About 10 to 12 per cent. on the capital.

Do you think that such being the case they will form themselves into joint stock banks?—If the usury is to be stopped that is the only course possible, I suppose.

Do you think as an alternative, if a bank is started and then money is lent out to these money-lenders at a low rate of interest, these men could be persuaded to lend it out to the borrowers at a lower rate of interest than they do at present, after taking something for themselves by way of commission?—I do not think it will be very practicable. I am of opinion that no village *mahajan* would like to enter into such a contract.

Would you be able to persuade some unemployed graduates of the *mahajan* community to do this sort of business?—That might be tried.

Is it one of the objects of your proposal that money-lenders should be compelled to keep accounts in a particular manner so that Government should have more facilities in collecting income-tax?—That is not my sole object. My idea is to create a better class of money-lenders.

Chairman : How would you force the *mahajans* to keep their accounts in a particular way? Would you make a defaulter punishable under the Penal Code?—It would be better to make it a penal offence in the case of defaulters. I would suggest a fine should be imposed without imprisonment.

Would it not be rather difficult to insist on accounts being kept in a special way by every class of money-lenders?—That will be so. At present, even widows who own some money lend it out. Such

of those people who cannot maintain accounts in the stipulated manner must disappear.

Do you think that it is a strong argument against such legislation that these widows would disappear from the field?—I do not think so.

Do you think there is a shortage of capital in the rural areas for money-lending purposes?—There is some shortage of capital because everywhere there is demand for money and the *mahajans* have great difficulty in satisfying demands for loans.

Do the *mahajans* ever seek to increase their working capital by borrowing from the towns?—They do sometimes. With the village *mahajans* it is becoming a common practice now.

How far away from the towns do the *mahajans* try to get extra finance in this way?—It may be about 5 to 10 miles away from the towns, as a rule.

Professor Batheja : Do you think extra capital would be required or the present capital which the indigenous bankers possess would suffice if they are asked to form joint stock banks?—I think extra capital would be required.

How will fresh capital be raised?—Government or the Imperial Bank may finance the same.

Chairman : Has Government got large amounts of money lying idle?—I do not think Government will be losers if they finance these joint stock banks. That is only my humble suggestion.

Professor Batheja : You say that national savings at present are generally hoarded underground in the shape of ornaments and other jewellery. Have you any evidence to show that this statement is correct? At least so far as Bihar and Orissa is concerned?—Even in respectable families nowadays, old ladies and gentlemen would advise the youngsters to hoard that way. It is more or less the usual practice with most people.

Is not that mentality confined to the older generation or is it still prevalent among the younger generation?—The practice has descended to their heirs and relations as well. But as a rule, the educated people do not hoard them underground.

Do you think diminution of the tendency is confined to towns and not to villages?—In the villages people do even now resort to that practice, the *raiya*s especially whenever they could lay by something.

What is your evidence of that?—That is the general impression.

Chairman : Do you see any special reason why the villagers who collected round us in the course of our investigations in the villages should say that they do not resort to such practice, and even that they have not heard of others doing so?—Of course, that is the human mentality. They do not like to say these things in public, and they are afraid of stating facts.

Professor Batheja : Do you think in Bihar and Orissa people go in for ornaments on a large scale?—Yes, they do make gold and silver ornaments.

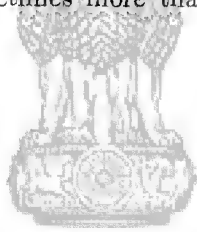
Where do they deposit these ornaments when they go on pilgrimage?—Mostly they carry them with themselves, or sometimes they leave them behind in their houses.

Would it be better if, say in post-offices, they are allowed to deposit their valuables when they go on pilgrimage?—It would be better if it could be done, as I am sure it will become very popular and people would greatly utilise the same.

Reverting to the idea of the *mahajans* being financed at low rates of interests on condition they would advance to the raiyats at a lower rate of interest and that some good *mahajans* and graduates could be made to do this work. do you not think that in the long run the competition of these people will drive out the other existing class of *mahajans*?—I think that will be possible.

So it would be better if these *mahajans* are licensed?—I think so.

Would you be surprised to hear that complaints have reached us from the indigenous bankers that they do not get sufficient facilities to recover their loans?—I do not believe it is so nowadays. At present those who indulge in money-lending are fully conscious that they may have to go to court to recover their dues and so they keep their account books in proper order with all transactions recorded. They always take ordinary precautions and sometimes more than ordinary precautions.



सत्यमेव जयते

Friday, November 29, 1929.

PATNA.

P R E S E N T :

Mr. HUBBACK (*Chairman*). | Mr. BATHEJA.

**Mr. P. T. MANSFIELD, I.C.S., Director of Land Records and
Surveys, Bihar and Orissa.**

STATEMENT I.

(Value of Land.)

District or locality.	Area of <i>raiyati</i> rights sold in last 10 years.	Occupancy rights.	Proprietary rights.
I. Kosi Diara in Purnea and Bhagalpur—			
(a) Certain villages in thanas Raniganj and Dhamdaha in Purnea (vide paragraphs 55 and 57 of Final Report of Kosi Diara Settlement, 1923-26).	3,441 acres	Rs. 48 per acre—average sale price of last 10 years. Rs. 90 to Rs. 120 per acre is present price.	Rs. 17 per acre (only one case recorded).
(b) Certain villages in thanas Forbesganj, Raniganj and Dhamdaha in Purnea (present operations).	4,440 acres	Rs. 67 per acre—average sale price of last 10 years.	Rs. 31 per acre (very few sales).
(c) Certain villages in thanas Partapganj, Madhipura, Supaul and Kishanganj in Bhagalpur (present operations).	18,800 acres	Rs. 86 per acre—average sale price of last 10 years.	

District or locality.	Area of <i>raiyyati</i> rights sold in last 10 years.	Occupancy rights.	Proprietary rights.
II. Santal Parganas ..	Statistics have not been collected by the settlement department. Transfers of <i>raiyyati</i> rights are only permitted in certain villages, mainly on the Bengal border. The Settlement Officer estimates the value of <i>raiyyati</i> rights as follows :—		
III. Ranchi—thanas Sonahatu, Bundu and Tamar in south-east of the district.	Paddy, 1st class, Rs. 100 to Rs. 300. Paddy, 2nd class, Rs. 75 to Rs. 200. Paddy, 3rd class, Rs. 30 to Rs. 150.	Upland I (<i>dofashi</i>) Rs. 50 to Rs. 100. Other upland Rs. 10 to Rs. 80 per acre.	Statistics not available.
	Average sale price of occupancy rights in 10 years preceding 1925-28.	Sale price of proprietary rights.	
IV. Orissa— (a) Balasore ..	Rs. 64 per acre, varying from Rs. 29 in Chandbali, Rs. 32 in Simulia, Rs. 53 in other flooded areas, to about Rs. 100 or Rs. 120 in fertile parts near Bhadrak.	The average sale price of undivided shares in temporarily settled estates is 21 times the old land revenue, which is Rs. 90 per acre of the whole area, or Rs. 1.23 per acre on the cultivated area.* Specific areas of proprietary rights are sold at Rs. 41 per acre.	
(b) Cuttack ..	Rs. 110 per acre; the Settlement Officer gives 77 per acre as the price in flooded areas, but it is much lower in some individual villages and small tracts; the price in the irrigated areas given as Rs. 149 per acre, but in some villages it is about Rs. 300 per acre.	The average sale price of undivided shares in temporarily settled estates is 21 times the old revenue, which was Rs. 1.35 per acre on the whole area, or Rs. 1.87 per acre on the cultivated area.*	
(c) Puri Sadr Sub-division.	Rs. 98 per acre; the Settlement Officer gives Rs. 81 as the average in Brahmagiri, Gop and Kakatpur, but in some villages it is as low as Rs. 30 or Rs. 40; in Satyabadi, Pipili and Delang the price varies from about Rs. 115 to Rs. 140 per acre.	The average sale price of undivided shares in temporarily settled estates is 11 times the old revenue, which was Rs. 1.09 per acre of the whole area, and Rs. 1.53 per acre on the cultivated area.* Specific areas have been sold at Rs. 19 per acre. *Vide Maddox paragraph 556; and <i>milan khasra</i> of Revenue Settlement for ratio of cultivated to total area.	
	A copy of the Settlement Officer's letter is enclosed.		
V. Manbhum ..	Total area sold in 10 years preceding settlement—31,514 acres.	Average price—Rs. 87 per acre.	No statistics of proprietary rights.

Note.—No distinction is made in any of the settlement statistics as to the prices of the different classes of land. The Settlement Officer of Ranchi's estimates are admittedly only estimates, and since there are restrictions on transfers, it is difficult to say that they are the real market price of land. Nor is any distinction made between the prices of land realised in court sales and in private sales.

STATEMENT II.

Restrictions on mortgages.

Orissa (Balasore, Cuttack and Puri).—Raiyats cannot give usufructuary mortgages of their holdings for any period which might exceed 9 years, without the consent of the landlord (section 96, Orissa Tenancy Act). Documents contravening this are not to be registered. Otherwise no restrictions on mortgage, either as regards land or agricultural holdings.

Sambalpur.—No occupancy tenant is entitled to mortgage his holding or any portion thereof for a period exceeding one year (section 46, Central Provinces Tenancy Act). Any transfer in contravention of this is voidable. Documents in contravention of this section shall not be registered.

There is no restriction on the mortgage of proprietary rights.

Chota Nagpur.—The following classes may be considered separately:—

- (i) Ordinary *raiya*ti holdings.
- (ii) The holdings of *bhuinhars* (a privileged class of Munda tenants).
- (iii) *Mundari khuntkatti* holdings. Rights of tenure-holders:—
 - (i) With regard to the first class, ordinary *raiya*ti holdings, the law is that no transfer for a period of more than five years is legal, except a *bhugat bandha* mortgage for a period not exceeding seven years (under a *bhugat bandha* mortgage the mortgagee occupies the land, and the original loan and interest are deemed to be extinguished by the profits made from the tenancy during the period of the mortgage). These restrictions on transfer are modified by the rules which have recently been made by the local Government permitting transfers of holdings to persons of the same tribe or caste under certain conditions. If the whole holding is transferred to a person of the same tribe or caste living in the same village or an adjoining village under the same landlord, the consent of the Deputy Commissioner is not required. If a part of the holding is transferred, or if the transferee does not live in the same village or an adjoining village under the same landlord, the consent of the Deputy Commissioner is required. No transfers are valid unless made by a registered instrument.
 - (ii) With regard to the second class (*bhuinhari* holdings) the law is the same as for ordinary *raiya*ti holdings, except that the rules referred to above do not apply to *bhuinhari* holdings.
 - (iii) The law relating to *Mundari khuntkattidars* is contained in Chapter XVIII of the Chota Nagpur Tenancy Act. Section 240 provides that no *Mundari khuntkatti* tenancy

is transferable by sale (except under a decree of a court under a mortgage executed before 1903, in which case there may be sale with the Deputy Commissioner's consent). Mortgages of *Mundari khuntkatti* tenancies are illegal, except a *bhugut bandha* mortgage for a period not exceeding seven years.

(iv) With regard to the fourth class—rights of tenure-holder—there is nothing in the law to prevent the tenure-holder from mortgaging them.

There is no restriction on the mortgage of proprietary rights.

Bihar.—There is no restriction on mortgages.

Santal Parganas.—There is no legal impediment to mortgages of the proprietary interest in the zamindari areas of the district. Mortgages of *raiya* rights are allowed only in certain parts, generally adjoining Bengal, where transfers are allowed.

Oral Evidence.

Chairman: You are Director of Land Records and Surveys?—Yes for two years next March.

You have given the Committee a statement of the average prices recorded during Settlement operations in certain parts of the Province. The first part of that statement concerns villages in Kosi Diara in Purnea and Bhagalpur. I suppose they would be rather of an exceptional character?—I am not sure whether they are quite representative. I do not think there are a large number of transactions. Anyway they vary a great deal.

Would you say that they are higher or lower than the prices of land in the more stable area adjoining that under Settlement?—I cannot say, but I should think that it will be naturally less. One generally finds that unstable portions have less value than stable ones.

With regard to the Ranchi statistics, I suppose they are fairly typical of the whole district?—I think they would be so. They are more or less the guess work of the Settlement Officer founded on his own estimates. They are not recorded according to the prices. He has based the value on the *salami* paid for concealed sales, and for settlements of *bakasht* land.

And the Orissa figures I take it are really as good as could be gathered?—Yes, they are quite reliable.

Those of Manbhum again I take it are not quite as good as Orissa figures because of the fact that transfers are not free there?—Yes.

Professor Batheja: Does not the department collect figures for other districts as well?—No. I have given only the recent statistics.

Chairman: The Final Reports of other districts are spread over about 30 years?—That is so.

Professor Batheja : Do these figures tally with the figures given by the Registration Department?—I think they ought to, but possibly they may be different as my figures are carried over a longer period of time than the figures of the Registration Department.

Some District Collectors have also sent us figures. Are these figures taken from the Settlement Officer's figures?—I do not know where they got them from. They did not write to me.

Chairman : You have already given us a very valuable statement on the restrictions of mortgages in the Province. Broadly speaking, I take it there is no legal restriction whatever in Bihar?—Yes, that is right.

But there is some slight restriction in the coastal districts of Orissa imposed mainly for the benefit of the landlord?—Yes.

In Chota Nagpur there is strong restriction imposed for the benefit of the tenant and in Santal Parganas there is an even stronger restriction imposed for the same purpose?—Yes.

The same is the case in Sambalpur as well?—That is so.

There is one question that I would like to ask you and that is whether from your experience of the Ranchi Division you find the restriction imposed on mortgages is really effective?—We have found that there were several cases of illegal mortgages.

Professor Batheja : What will be the percentage, can you kindly tell us?—I think that in an area of about 500 square miles, we found less than a thousand acres of land illegally transferred. This works out at about '3 per cent.

Chairman : And do you think our information is correct that in the Ranchi Division especially these illegal mortgages were nearly always renewed and very seldom questioned before the Deputy Commissioner?—I can not say about that.

As a matter of fact you will not be very much surprised if we say that that is the information we have got?—No, I would not be surprised if that is so.

Professor Batheja : If illegal transfers come to the notice of the Government what steps can Government take against those people?—I am not sure whether the Deputy Commissioner can take any action at all of his own motion. The only thing that I can say is that such transfers will not be recognised in judicial courts; that is the law.

But after possession for a long time will not the courts recognise such transfers?—I think it will vary in different places. The law is that such transfers must be ignored, even in criminal courts; but it must be very difficult to ignore the facts of possession altogether. As a matter of fact, in the latest Settlement we have, in such cases, recorded the name of the transferee as an illegal possessor. We were not recording the transferee at all before.

There would not be many chances of such cases coming to the notice of the courts?—I can not say. The transferor has a right to go to the Deputy Commissioner after the expiry of his usufructuary mortgage.

Chairman: You have had a good deal of experience prior to going on Settlement work with co-operative credit?—Yes, to some extent I was connected with the movement.

In what parts of the Province were you connected with the co-operative movement?—Firstly at Barh and then at Sitamarhi.

Did you find that the developments in those parts of the Province of the co-operative movement were altogether satisfactory?—My impression was that they were going ahead too fast.

What would be the danger of going ahead faster now?—People come to look upon these co-operative banks as a sort of *mahajani* institution. They borrow too much.

Is it your view that it would be better for the *raiya*s to organise any fresh form of credit agency which would replace the existing *mahajan*?—Personally, I am strongly in favour of the existing co-operative societies. They ought to be the best thing of all.

You think the co-operative societies before long will be able to cover the ground very adequately?—I can not say. I should say they will as fast as is desirable.

Did you organise any society yourself?—Yes, I have organised a few.

Did you find there was any reluctance to accept the principle of joint unlimited liability?—They do not realise the principle of unlimited liability at all. As a matter of fact they do not look into that side at all. They are too ready to think that this is an easy means of borrowing money and so they join the co-operative societies.

Do you think that a system of direct credit on the individual holding would be very dangerous?—I think so.

Do you think the co-operative societies will be able to replace the existing *mahajans* in course of time?—Yes, I think so.

Do you think that if the business of the *mahajan* is regularised and licensed, it would improve the existing state of affairs?—The system of licensing *mahajans*, in my opinion, is as dangerous as a fast moving co-operative movement.

To what do you attribute the high rate of interest which the *mahajan* is able to get at present?—Because there are such enormous risks in the business, I should imagine.

Mainly risk and not shortage of money?—Mainly risk.

During the time that you were connected with the co-operative movement, had there been any development towards giving long-term credit?—I think they were not as a rule granting loans for more

than five years' duration. Sometimes they used to grant for a period of seven years.

Do you think it is dangerous development to give long-term loans for ten years or more?—I do not consider it a dangerous development.

Professor Batheja: Does not this conversion of short-term into long-term credit indicate the accumulation of arrears and postpone the evil day of payment?—They never think of repayment at all—I mean the borrowers.

Chairman: Do you think it desirable at any rate to separate the two functions of these co-operative central banks, i.e. giving short and long-term credit and make it perfectly clear to the borrower what the distinction is?—At present you will agree there is no definite understanding when he has to repay?—I think it is extremely desirable that a borrower should be informed of all the stipulations and those should be enforced very rigidly.

A *raiya* will at the same time require both long-term and short-term credit, the former especially to pay off his old debts to the *mahajan*, will he not?—Yes.

Would you leave the provision of the long-term credit loans to the co-operative central banks as at present constituted?—Yes, provided the co-operative banks could raise the necessary extra money that is required.

Do you think that the central banks could further operate in the matter of long-term credit for a class which is not at present attracted to the co-operative movement, viz., the small zamindars?—I do not see why they should not. I have not gone much into these matters. I cannot say *prima facie* why they should not do it.

You do not think it is better not to mix up a man who will borrow Rs. 10,000 and pay it after ten years with a man who borrows Rs. 50 and pays it after one year?—I think it will be better to separate the two, in different societies.

Have you any other points to make with regard to the co-operative movement?—I believe that they habitually hush up their difficulties.

Professor Batheja: If the defects of the co-operative movement are published will there not be a set-back to the movement?—Yes, there will be a set-back.

Will not the central banks lose their deposits?—If they are not efficient then I would not advocate deposits going to them.

Chairman: At the present time the co-operative banks are tied down to take their deposits from the local area. Do you think it is a sound provision?—I do not think they should be prohibited from taking their deposits from outside.

You think that will be a good development?—Certainly. In the early days they had to depend on propaganda to attract their deposits, but now it all depends on the fact of their efficiency. All efficient banks attract deposits.

Professor Batheja : Do you not think that at present there is a belief that the movement has the support of the Government and so it is that these co-operative banks are able to attract deposits?—That is so, but the sooner the people are disabused of that idea the better.

Would that not mean that the co-operative movement will develop only slowly and would that not lead to the conclusion that the present *mahajan* class cannot be displaced easily?—They will develop all the same. If they develop slowly because they are unsound or unbusiness-like, it is quite right that they should develop slowly.

Chairman : In regard to the control of the co-operative movement as it is at present constituted, in what part of the organisation does the main control rest now?—Is it the Registrar, or the provincial bank or the central bank or the primary societies?—I think the central banks have the control.

What class of persons actually direct the operations of the central co-operative banks?—The small zamindars, pleaders and middle class men generally.

Do the representatives of the primary societies, the actual villages, have in fact any control of the central banks?—If they are encouraged to do so they will take an intelligent interest. They ought to have more control than they do.

Professor Batheja : You will retain the principle of having preference shareholders in these banks?—Yes.

Chairman : With regard to the present arrangement of the formation of the directorate of these central banks according to the Act of 1912, half the number of directors are elected by the preference shareholders and the other half by the ordinary shareholders. Do you think it would be advisable to alter that position?—I think most of the central banks are managed by a working committee. The preference shareholders, I think, have a majority of representation in the working committee.

Professor Batheja : So the 50 per cent. of representation by the villagers, as at present, is not very effective in your opinion?—That is right.

Short of amendment of the Act it would be very difficult to enforce any change in that position, because the thing is decided by an election at the general meeting?—The rules themselves could be amended.

Do you think that the Subdivisional Officer should be the chairman of the co-operative central bank?—I think it would be better, as I think the banks would be better managed as a rule.

Chairman : The actual working capital of the co-operative movement in this Province is about Rs. 2½ crores at present. If the ideal of extending the co-operative movement to all householders is realised the figure might go up to Rs. 50 crores. In view of this do you think that the Registrar of Co-operative Societies should be the final authority in all questions of banking policy for the movement, or would you suggest

any form of assistance to him such as an Advisory Board for big questions of banking policy?—I think it would be better to have an Advisory Board of the kind suggested, provided the final responsibility for any decision rests with the Registrar.

Mr. H. A. GUBBAY, A.M. I.C.E., Chief Engineer to the Government of Bihar and Orissa, Public Works Department.

Oral Evidence.

Chairman : There is only one point on which we want your evidence, Mr. Gubbay, and that is on the proposal put before us by one witness that a contractor might be given facilities to go to a bank with a contract in his hand and ask the bank to supply him with finance throughout the period of the contract, against which the bank could deduct as the bills come in; the idea being that some contractors find it difficult to meet their day to day finance requirements during the time the contract is being executed. I understand you have got some objections to that from the point of view of the Public Works Department of Government and we should like to hear them.

I understand the first objection is that it is necessary to have the name of the contractor mentioned on the cheque issued to him?—In my opinion, it is necessary.

Would it not get round the difficulty if the cheque is made out payable to the account of Mr.....contractor with the Bank of.....at.....branch?—I can have all these points examined by the Accountant-General. On receipt of information I shall let you know later on.

There is a second objection, that money due to a contractor is sometimes attached by order of a court. What do you do when it is attached?—We pay it to court.

Would not a bank that undertook to accommodate the contractor in the way that we are suggesting ordinarily take care that the contractor was not insolvent or likely to have the bills attached?—The attachment may come through a court situated outside the Province.

Still the banks would operate only with customers whom they have reason to believe are solvent?—I think so. In any case, if an attachment order was received from the court, we have to hold the money back.

Professor Batheja : Under what circumstances generally are these attachments made?—Generally for purchases made outside this Province, materials used in this Province and which the contractor has not paid for.

Is it necessary that the Public Works Department should undertake to collect debts for the contractors on behalf of other parties?—We only do so if we get an order from the court.

Chairman : An alternative has been proposed that the contractor should draw something like a commercial bill which the officer of the Public Works Department would accept up to a certain amount, in the technical sense, for the value of work done for which the Government pays the contractor. Do you see any objection to that?—I see objections to the alternative proposal. The Executive Engineer cannot accept a commercial bill of any description or make any payment unless he has satisfied himself by measurement that the contractor has done work to that value.

When he is so satisfied the payment is generally made without delay, I suppose?—Prompt payments are made.

Professor Batheja : So you do not find any advantage in the alternative arrangement which we suggested to you?—None that I can see.

Chairman : As you have gained considerable experience of supervising works of public bodies do you think a similar arrangement to that first proposed could be made between the public bodies and the contractors?—I think this could be examined with advantage.

So long as it is a free contract on the part of the contractor himself to have his dues paid to him in a particular bank there would be no hardship on the contractor, I suppose?—There would not be any hardship at all.

Professor Batheja : Can you give us an idea of the value of contracts of public bodies in this Province, I mean the district boards and municipalities?—I cannot say about that. But the work done by the Public Works Department is about 67 lakhs of rupees a year.

At any rate have you a rough idea of the contracts made by the district boards and municipalities?—I have no idea myself but you could get that information from the annual reports of the district boards and municipalities under the head "Public Works Department", published by the Local Self-Government Department of Government. That would give us a fairly approximate idea of the amount of contracts given out during the year. सत्यमेव जयते

Tuesday, December 3, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

**Mr. B. B. MUKHARJI, Professor of Economics, G. B. B. College,
Muzaffarpur.**

Replies to the Questionnaire.

I.

In my district, the agriculturist gets loans for expenses of cultivation and for land improvements from the *mahajan* and the co-operative banks, while in years of bad harvest Government also sanctions *takavi* loans. The *mahajan* is in most cases a family institution and the *raiya*s are bound to them from generation to generation. The co-operative banks have not succeeded in dislodging them and cases are not rare where the *raiya* reverts to his *mahajan* after paying up his dues to the society by borrowing from the *mahajan*. They cling to him in spite of his underhand dealings, owing partly to custom and partly to the promptitude with which the *mahajan* advances the loan. The Imperial Bank does not figure in agricultural finance but the joint stock banks and the loan offices lend to zamindars and big *raiya*s on the security of land and these loans are rarely given for any of the three purposes mentioned in question 1. Companies dealing in fertilisers and implements rarely give credit to the small cultivator direct and whenever they advance manures, etc., they do it through the co-operative banks. The *beparis* usually give advances to the growers.

The *mahajan* lends for short term as well as for long term. He lends for productive as well as for unproductive purposes. He has a thorough knowledge of the men and their affairs, hence he does not take a long time to scrutinize the security behind each and every loan and where he has faith in the honesty of the borrower he lends without any security. His personal influence in the village is very great and in many cases the debtors are mortally afraid of him. The indigenous banker in India is not a "financial service station" or a "financial adviser of the *raiya*s", but he has gathered round him some of the powers and privileges which the institution of zamindars has developed

and he is looked upon as a semi-landlord. He allows cash-credit facilities to the people which is very useful during the cultivating season.

The chief defects in the *mahajani* system are the total lack of regulation and the high rate of interest. Some of them have a tendency to cheat the debtors by various methods, and the system of accounting is so involved that it is impossible for the debtor to find out how he stands. It is not the intention of the *mahajans* to ruin their clients but the majority of them want to have a tight hold over the debtors owing to the dearth of agricultural labourers. The rate of interest has no reference to the money market but it is determined mainly by local conditions. It is a fact that the rate has gone down wherever co-operative societies have been started. The high rate is justified on two grounds: the *mahajan* cannot find an avenue for the investment of his capital and he has to make a living out of his business. The high cost and the delay involved in litigation are also partly responsible for this.

The co-operative society has not yet succeeded in supplanting the *mahajan*, in spite of the manifold benefits which it has conferred on the *raiyyats*. There is nothing wrong in the principle of co-operation but the defect lies in the way it has been applied. The co-operative society is primarily an association of a number of men and the principal object is the development of a spirit of fellowship. This has not been attained in most cases and the society to-day is merely an agency for financing the *raiyyats* at a comparatively low rate of interest and it has not suggested any method of improving his economic condition. The society has not been able to finance him to the fullest extent, has not helped him to increase his productive capacity or to retain the maximum amount of profits over the sale of his produce. The *raiyyat* borrows from the *mahajan* even after joining the society, as his assets are usually underassessed and his borrowing capacity is unduly restricted. The idea of trusteeship with which the managing committee of a society is obsessed very often makes them keep to the "Safety First" principle of underfinancing. The result is that the *raiyyat* continues borrowing from the *mahajan* at a high rate of interest, which stands in the way of his being able to repay the society loan. The society does not usually discriminate between long and short-term loans. The longest term hardly exceeds five years which is manifestly too short a period for the repayment of a loan incurred for the purchase of or for any permanent improvement of the land. The short-period loans, when default takes place, become long-period ones and the distinction between them ultimately disappears. A large percentage of *raiyyats* have other sources of income, derived from service, employment as labourers, etc. In the case of the Narsanda society under the Muzaffarpur Central Bank, for example, in 1928 16 out of 19 members had an annual income of over Rs. 50 from other sources. This income is rarely utilized in repaying loans as the repayment *kists* are fixed only with reference to the agricultural seasons and the harvests. If either of

these crops fails default invariably takes place. Besides this the member is under the influence of the *bepari* and there is no organization which can secure to him a portion of the profits which usually goes now to the middleman. The assets of the member do not improve and he goes back to the *mahajani* system at the first opportunity. In the case of the Narsanda society started in 1916, the following table gives the changes in the assets of the members after 12 years' working :—

Year.	Area of land.		Otehr property (Cattle).
	Bighas.	Cottahs.	
1917	... 57	14	45
1928	... 55	9	46

The land has decreased by 2 bighas, 5 cottahs while under " other Property " there has been an increase by one only.

Further there is no system of cash credit either in the society or in the bank. The member rarely foresees the need of money and he does not apply for the loan in time. In some cases this is almost not possible as the negotiations for the purchase of land may come to a head at any time, though in the case of purely agricultural expenses it is not difficult to estimate the amount of funds required. Hence much time is lost between the application for the loan and the sanction by the bank and this drives the *raiya* to the *mahajan*. The need for cash credit is further established by the common defect which the local auditors point out in their audit notes, of keeping large cash balances for long periods. This practice demonstrates that there is a great demand among the people for short-term loans, as the balance is lent out for very short periods among the friends of the *sarpanch* without sanction. This is misappropriation no doubt, but instead of penalising the offenders, the necessity which causes this should be recognized and a fixed amount should be allowed to remain in the society which can be utilized in lending to members for short periods without any delay.

The delay which takes place in most central banks in the sanction of loan applications of societies has contributed in no small measure to the unpopularity of the movement. A loan application must be made in a proper form and the necessary entries therein should be made by the society's panches. It is then scrutinized by the bank clerk, who passes it on to the manager for further scrutiny. It is next passed over to the honorary secretary who puts it up before the working committee which meets once a week. Intimation of the sanction of the loan is then sent to the society and three panches have to come to the bank for receiving payment. In normal cases, the time taken is at least four weeks, but if there is a flaw anywhere in the application or if it occurs in the midst of a busy agricultural season when the members have no time to come to the bank to receive payment, six weeks may elapse before the needy applicant may get his money. Besides this there is no difference in the procedure for applying for

long and short-term loans. The system therefore is very inelastic and in order to improve it, it is necessary to introduce some form of cash credit with necessary safeguards. The banks do not welcome any such proposal as they do not want to keep a large amount of idle money. This is not so serious as it may appear at first sight. The demand of the societies for short-term credit may be of two types (1) expenses of cultivation, (2) trade. Loans are made for cultivation expenses from May to July, in October and November while trade demands are made December to March for moving the potato, paddy, chilli and tobacco crops. Thus the demand for these two purposes is not likely to coincide and the bank's floating balance is likely to be utilized throughout the year. With a view to safeguard the interests of the bank better, a seasonal, in place of the annual estimate of the short-term requirements of the members should be made. The Madras system requires that each society should send at least six weeks before the agricultural season its short-term requirement which is scrutinized and sanctioned by the bank, and it is expected that the amount should be drawn within a period of four months. This gives the bank a definite idea of the amount it must allot for cash credit and as it is for a short period, it does not result in the bank having to keep a large amount of idle capital.

Then again it is absolutely necessary to introduce a differentiation between short, intermediate and long-term credit. The Registrar has initiated short and long-term credit and *kists* have been revised in many banks accordingly but the long-term credit referred to in the Registrar's circular does not extend beyond seven years.

Agricultural credit differs from commercial credit in that the longest period allowed for the latter is too short for the former and though the farmer's security may be sound but it is not bankable in the banker's sense. It is not easy to ascertain the exact value of the farmer's security and it requires a considerable amount of control and supervision. The farmer gets back his money once a year, and a failure in his crop may make him wait for a longer period to repay his loan. In the case of his purchasing cattle for the purpose of breeding, it is not possible for him to draw his profits in less than two years' time. This emphasizes the need for the differentiation of intermediate loans from two to five years. Then again for the redemption of land, for permanent improvements in the land and for land purchases long-term credit is required. It is also necessary to provide employment to young men with brains but with no capital and this would set them upon their legs. This long-term credit may extend from eight to 30 years. Short-term credit is necessary to save the grower from the clutches of the *mahajan* who helps him to carry over from harvest to harvest and to whom he is compelled to sell at very low prices. Farming succeeds when it is conducted on business lines but for good business capital should be borrowed at a low rate of interest, the supply of credit should be adequate and the repayment punctual.

The central co-operative bank may be expected to furnish these three types of credit—short, intermediate and long-term. It is now supplying the first two while it has not attempted the third. Long period of land mortgage banking has been attempted in the Punjab and in Madras where separate land mortgage banks have been started for this purpose. Mortgage banking means the raising of a large capital composed of long-term deposits and debentures and the mortgaging of the land to the bank. It is not difficult to mortgage the proprietary rights in the soil in Madras where the *raiyyatwari* system prevails, but in Bihar with the chain of middlemen between the *raiyyat* and the Government and the institution of joint family it is difficult to ascertain the shares of each member. In addition to these, the tenant's right to alienate his holding by sale is restricted and the consent of the landlord is required to validate a transfer. The cost of enquiries at the registration offices for previous encumbrances, at the present scale of fees, is almost ruinous. All these go to show that there are many legal difficulties and in order to make mortgage banking successful in these parts close and constant supervision is necessary. This can never be maintained by banks operating over large areas, hence it is safe to carry on land mortgage banking through central banks.

The raising of large capital at a low rate of interest, either by attracting deposits or by the sale of debentures, can only be done by such an institution as the Provincial Bank. The Government should come in and place some funds at its disposal for this purpose. This has been done in other countries. In England, the Small Holdings Allotment Act of 1907 empowered the Government to purchase lands and sell them on instalments or on leases at reasonable rates for long periods. In Ireland laws were passed in 1903 and 1905 which authorized the Government to finance schemes for giving advances to tenants to buy lands repayable in 70 years. This is done in the United States of America through the Federal Land Banks which work with a Government guarantee. Hence it is reasonable to expect that the Government should liberally subsidize the Provincial Bank so as to enable the latter to place funds at the disposal of the central banks at low rates of interest so as to make loans for periods exceeding ten years possible. The central banks can easily devote their share capital and reserve funds to long-term loans which amounted in 1927 to Rs. 26,20,000 in this province, as this can be lent at a low rate of interest.

Financial assistance given to the *raiyyats* by the Government in two ways—(1) The Agriculturists' Loans Act XII of 1884 restricts the scope of relief to cases of distress due to natural causes, such as flood, drought, famine, etc., but help is not given in other genuine cases of distress due to economic causes, e.g., profiteering by middlemen and seasonal depression in trade. Besides this the rigidity of collection has stood in the way of its popularity. (2) The Land Improvement Act is wide in its scope but the rules framed under it have reduced its usefulness.

MARKETING.

Marketing of produce is mainly in the hands of *beparis*, village *banias* or agents of exporting firms. These people either make their purchases from the growers at their own homes or at the village *hats* or at the *arhats*. Village *mahajans* in many cases give advances to the *raiya*s and are repaid in cash or in kind. In the case of money crops like tobacco and chillies, or fruits like lichis and mangoes, advance sales take place very often and the rates settled are usually advantageous to the buyer. Besides this, the grower has to pay a large amount as commission, the details of which will be found in my book on "Co-operation and Rural Welfare in India" (Thacker, Spink and Company).

Co-operative marketing has met with some amount of success in Bombay in cotton, in wheat in the Punjab and in jute in Bengal. It has not been seriously tried in this province as the Angul experiment cannot be regarded as really co-operative and the potato sale society at Bihar Sharif is a small scale affair. This phase of co-operative activity bristles with difficulties. The illiteracy of the masses, their low economic condition, and the unscrupulousness of the middlemen stand in the way of any rapid improvement. There is a dearth of trained co-operative officials who are familiar with market conditions and the result is failure due either to extreme nervousness or wild recklessness. The necessity of introducing some amount of compulsion in the sale societies is very great as unless the members are compelled to make over the whole of their produce to the society, it would be impossible to secure their loyalty. This has been done in South Africa, Canada, and Queensland.

For the marketing of money crops like tobacco, wheat, jute, groundnuts, sugarcane, etc., the system of loans on the security of produce which has just been introduced in Egypt seems also suitable for Indian conditions. The Egyptian Government has set apart a fund which has been deposited with each bank "for the purpose of making advances against cotton deposited by the cultivators in approved godowns, compounds, etc. Banks will requisition daily from the National Bank the amount of advances approved on the previous day. The grower may, on depositing his cotton at any of the several places nominated by the Government, including bank compounds, warehouses and approved ginning factories, obtain advances on a fixed scale according to the amount of cotton deposited, its variety, and class. Interest at the rate of 4 per cent. per annum is required to be paid by cultivators taking advances, but all other charges, e.g., storage packing, weighing, protection, etc., are paid by Government". These loans are for four months usually and the grading of cotton is done by the Government officials who have been empowered to sell it at the request of the grower or to put it up to auction if the man fails to repay. This system prevents the market from being glutted and brings about a steadier supply of the produce to the market. In India, the co-operative banks, as agents of the Government, can take up this work.

Another method of securing to the grower the legitimate fruits of his labour has been suggested in my paper on "Co-operative Marketing" (12th Indian Economics Conference), from which the following is an extract :—

" In order to secure the proper remuneration to the cultivators something more than mere negative control is necessary. The scale of operations which the co-operative society can undertake must be sufficiently large so as to ensure the economies of large-scale business. The best method of gaining this object is by combining the two the co-operative sale society and the Market Committee.

There should be a Marketing Association in a definite area comprising say ten villages. The membership would be open to these villages who would send their Patels, Jethraiats or Elders as representatives to the Association and contribute to its funds in the form of shares. The Association would select a place where the buyer and the seller can very conveniently meet and transact business. Accommodation can be provided for the storage of commodities with facilities for weighing. It must insist on the use of standard weights. The rules of the market would penalise any attempt to cheat and the use of unfair methods. The Association will get quotations of prices daily or three times a week from the Central Association in the district headquarters and it will arrange to draw the attention of the members to the crop forecasts published from time to time and explain their full significance to them. It will gradually insist on pure, unadulterated goods and introduce gradation of commodities according to standards prevailing in the provincial markets. It may arrange wherever necessary, for the transport of the goods from the village to the market and from the village market to the headquarters market or if it is intended for despatch to the railway station. Brokers must register their names and deposit some amount as security and they must abide by the rules made for their guidance. In addition to these functions the Association will finance those agriculturists who are so hard-pressed for funds that they are compelled to sell their produce at a disadvantage. These loans will only be given on the recommendation of the representatives of the village and in no case will they be given out unless the commodity is kept in the custody of the Market Association and not more than 60 per cent. of the price will be given as loan. This will not only result in the checking of profiteering, but it will serve to extend the marketing period and area and prevent violent fluctuations in supply. On all sales, the Association will realise a reasonable charge as commission. The law should provide

that no sale or purchase of produce can take place for trade purposes unless it has been conducted either in the market or under the auspices of the Marketing Association, and no bag or bale or package containing these articles will be allowed to be carried either in headloads or in carts unless it bears a certificate of the Association testifying to the quality and quantity. This policy of centralisation may appear to be an undue interference with the freedom of trade but it is of the greatest importance, as without the pooling of the produce, it will not be possible to secure for the cultivator the legitimate return for his labour. The Village Marketing Association will be managed by competent officials whose work will be supervised by a committee of members. The village associations will be grouped under a central association located at the headquarters of the district or subdivision. These central associations will secure funds in order to enable the village associations to advance them to the needy cultivators. It will secure orders for the supply of commodities and arrange for their proper transport from the villages to the destination. It will further obtain daily quotations of prices from the Provincial Markets Bureau and communicate them to the constituent markets. This bureau will be composed of a small number of the representatives of the district associations and it will be placed in charge of an official to be called the market director. The functions of this bureau will be to gather and disseminate information concerning supply, demand, prevailing prices and commercial movements of agricultural produce. The market director will organize and promote co-operative associations for marketing. He will foster and encourage the standardizing, grading, inspection, labelling, handling, storage and sale of any such products. The different market associations will look up to him for settling any disputes or will seek his advice for assisting them in the commercial and efficient distribution of such products at fair prices. The market bureau will keep commercial correspondents at the different important markets of India who will study those markets and send regular reports. Thus a pooling of agricultural produce and its marketing through well-organized marketing associations based on co-operative principles are essential for the improvement of the economic condition of the cultivator."

It is not easy to give an estimate of the amount of extra capital for financing the co-operative movement. The societies are underfinanced, and owing to the rigidity of the Haisiyat the value of landed assets has been laid down by the rule of law without any reference to the quality of the land and its

situation. The direct result of this restriction of normal credit has been the stagnation of societies while the banks are recording " Surpluses " and are refusing deposits. The average society in Burma was advanced in 1927 Rs. 1,784 and the average member Rs. 79, while in the United Provinces the figures were Rs. 762 and Rs. 31, respectively, and in this province the society received Rs. 724 and the member Rs. 21. In the case of the Narsanda society mentioned above, the total landed assets were 58 bighas and the estimated value was Rs. 3,480 or Rs. 60 per bigha, while in that village and in its neighbourhood the worst plot never sells below Rs. 150 per bigha, thus the normal credit of the society has been underestimated by 60 per cent. and this may give an idea of the total credit requirements of the existing societies.

The Muzaffarpur Central Bank does not compete with the local joint stock banks like the Benares Bank in financing as the latter does not lend to small *raiyats*, but there is very keen competition so far as fixed and savings bank deposits are concerned. The rates offered by the central bank on both types of deposit are much higher than those allowed by the Benares Bank. The latter, however, competes with the Muzaffarpur Traders' Bank, as the constituents of both are traders and the rates for loan of both are almost the same. In course of time it is expected that the Traders' Bank would be able to divert a large portion of the business of the Benares Bank.

II.

For replies to Questions under II, I beg to refer to my monograph on " Bihari Mahajan : A study in indigenous banking in Bihar " (Published by the Principal, Greer, Bhumihaar Brahman College, Muzaffarpur, 1929).

III.

The postal savings bank, the postal cash certificate and the co-operative societies are the existing institutions for the encouragement of the habit of saving. The postal savings banks are popular with the wage-earners but not with the agriculturists as the rate of interest is too low. The co-operative society has not succeeded in developing the habit of saving and has not been able to promote thrift. This is mainly due to the fact that the members have not been taught the virtues of thrift and for the fact that it is to their interest to utilize their savings in liquidating their debt instead of keeping them in the society as deposits as the rate for loan is $15 \frac{3}{8}$ and the deposit rate does not exceed 8 per cent.

There is a great necessity for carrying on an effective and systematic propaganda for the development of the habit of thrift. Several attempts have been made to raise some funds by the *muthia* system, by which each member is expected to keep apart daily a portion out of the rice consumed in the family. This has not produced very good results, as this *muthia* system has long been associated with religion and people consider the amount collected as intended for

charity, hence the incentive to save gets weak. It is really not possible for the cultivator to make any money savings always, hence another plan of saving in kind can be adopted. Just before a harvest, the punches of the society should hold a meeting of the members and considering the nature of the harvest, lay down that every member must make over to them a fixed amount, say five seers per maund of the crop produced which would be credited to his account as grain deposit and the collected grain should be kept in the society's store-house in the custody of the *punches*. When after some time the prices have gone up fairly high, the grain would be sold and the amount realized should be credited to the account of the members as cash deposit. This system has the further advantage of giving the members a valuable training in looking after the society's grain, which experience, would be of great use in managing a sale society, if one such is started later on.

The virtues of thrift should be impressed upon the boys of the primary and upper primary schools by means of lessons in their readers, stories and by organising thrift societies in the schools to which the students would bring their small savings, one pice and upwards weekly. The utility of the society would consist, not so much in the amount of money saved, but in the inculcation of the habit of thrift. I would advocate the holding of periodical small savings collection campaigns in the villages and towns in which the small school boys should be encouraged to take a leading part.

Additional Questions.

There is ample scope for the organisation of pawnshops on co-operative lines. Co-operation at present has left severely alone the man who has no assets and this is the person who visits pawnshops run by *bantias* and pawns their silver trinkets and brass utensils, and pays a very high rate of interest. In villages in addition to the *bania*, ladies of middle class families carry on banking of this type and the usual rate of interest is $37\frac{1}{2}$ per cent. per annum but cases of 75 per cent. are not rare. The amount advanced never exceeds one-half of the value of the article which is sold off by the creditor, if it is not redeemed within the period fixed. I would advocate the organization of co-operative pawnshops in towns and villages where co-operative societies exist. The membership fee should be nominal, and loans should be given on rates of interest 9 per cent. lower than the local *bania's* rate. The rate would be say 28 per cent. or $1\frac{1}{2}$ pice per rupee per month, out of which 8 per cent. should be deducted as interest on the capital borrowed and the balance 20 per cent. should be credited to the member's savings account. In course of time, every member would accumulate a decent amount as savings deposit and then the rate of interest could be lowered very much.

Oral Evidence.

Chairman : You are Professor of Economics in the Muzaffarpur Greer Bhumihar Brahman College?—Yes.

Are you also joint honorary secretary of the Muzaffarpur central bank?—Yes. For the last fourteen years I have been connected with the movement. I am also honorary secretary of the Greer Bhumihar Brahman College co-operative stores.

Did you recently publish a book entitled “The Bihari Mahajans”?—Yes.

You speak about the *raiyat* going to the *mahajan* in spite of his underhand dealings. Have you got much first-hand experience of the underhand dealings of the *mahajans* in Bihar?—Yes, I have various cases. We had to examine the accounts of members with the *mahajans*; we had to intervene personally. We found that in many cases the *mahajan* had secured a thumb impression by force on a blank piece of paper or the figures had been doubled. One or two cases were taken up before the courts in 1924 and 1925.

Professor Batheja : Are these cases exceptional or normal?—These are exceptional cases but it is a fact that the *mahajans* are not very fair in their dealings with the *raiya*ts.

What percentage of *mahajans* resort to this practice?—It is very difficult to give the percentage but it is a fair percentage.

Chairman : What do you consider to be the remedy for that?—The remedy should be some sort of control or supervision over the *mahajans* and also that the *raiya*ts should be more educated.

How many years of experience have you of this kind now?—Fourteen years.

Do you see any improvement in the *raiyat*'s ability to stand up to his *mahajan* against such malpractices?—Yes, it is gradually coming.

Professor Batheja : Is it possible that more cases of bad practices come to your notice than cases of fair and honest dealings of the *mahajan*?—We also get cases of honest dealings. Even now bad instances are greater in number, say over 55 per cent. It is more so with small *mahajans*.

Is it generally the substantial *raiyat* who combines money-lending with agriculture?—Yes.

In making the statement about *mahajans* are you also referring to the town *mahajans* and big indigenous bankers?—No.

Is it possible that some of the *mahajans* have resorted to this bad practice in order to keep a hold on his client in case he threatens to go to court? Is that one of the reasons?—Yes, it may be one of the grounds.

Chairman : You speak of dealings in fertilisers. Are there any companies so dealing in Muzaffarpur?—There is one which deals in Ammonium Sulphate and Chilean Nitrates, etc.

Is that a form of activity which you expect to expand in the near future?—It is gradually expanding.

Would that require more finance on the part of the co-operative bank?—Certainly.

Could you give us any estimate of the probable expansion in the next ten years?—Yes. Chilean Nitrate and Sulphate of Ammonia worth Rs. 60 were purchased in 1927. The amount increased to Rs. 200 in 1928 and up till now it is over Rs. 350.

Is it likely to expand to more than a lakh in the next ten years?—It is quite possible, with more propaganda.

Would it be Rs. 5 lakhs in the next ten years?—One lakh would be enough for our area.

You say that one of the grounds on which the *mahajan* justifies his high rate of interest is that he cannot find an avenue for the investment of his capital. Do you mean that there is more capital available for investment in agriculture than agriculture at present wants?—The point is that the *mahajan* feels it safe to invest in this kind of business but some *mahajans* who have got some education are gradually thinking of investing in other lines also, for example district board road contract or motor lorry business. Usually they do not want to leave their villages and to invest in anything else.

If the *mahajans* diverted their capital to other forms of investment as you suggest, would it not diminish the stock of capital available for agricultural community and further increase the rate of interest?—It would, unless you provide capital from other sources.

Do you think that there is need for a considerable inflow of capital into agriculture?—Yes.

Professor Batheja : What do you exactly mean by dearth of agricultural labourer?—We find that there is a large exodus of agricultural labour to Bengal and other places. In Bihar for sowing and harvesting there is usually great demand for labour and we do not get sufficient labour.

Chairman : Why should the labourer go to other places for seeking employment when there is great demand for his service in Muzaffarpur?—Because he does not get sufficient wages. He would get better wages in Bengal.

Professor Batheja : When you refer to the dearth of agricultural labour you refer to a dearth at a particular price?—Yes.

If the prices were raised possibly the scarcity would disappear?—Yes. It is not the dearth of men but the dearth of men exactly at that price. Another thing is that some of the labourers are members of a joint family. They have two or three bighas of land. Some of them go to Bengal and one stays at home for cultivation. They are not available for agricultural labour on hire. Those who go to Bengal get better wages.

If that is the object of the *mahajan* in lending money then is it not possible that the terms of his loan will be very easy and generous to the borrower?—If he can get men on these terms why should he relax them.

If he wants to have control over the labourer then obviously he must make it worth the while of the labourer to stay on?—But if on those terms he gets men why should he relax the terms. They do not know how to fight for better terms.

Why should the agriculturist accept these terms when he has other avenues open to him?—Because some of them are so much tied down to their house or other family considerations that they cannot go.

Will they be exceptional cases or normal cases?—Normal for the type of men they represent.

Is this an exceptional type or normal type who would agree to the onerous condition of the *mahajan*?—This is not very large but there is a fairly decent percentage.

Chairman: You then advocate the introduction or possibly the extension of the system of cash credits placed at the disposal of the primary society by the central bank. Are there any primary societies which enjoy such cash credits?—Not in our area, except in the case of the Traders' Bank.

But at the same time I gather that the local auditors complain that the primary societies keep large cash balances for large periods. Is that not so?—That is perfectly true. What happens is that these are usually lent out to friends of the *punches* or to the *punches* themselves without sanction. And also when some *raiya* has made a repayment that money is not sent to the central bank as it should be but is held over and distributed among themselves.

You mean that when they make recoveries, they do not take prompt steps to repay to the central banks?—Yes.

You say that in normal cases it takes four weeks to get through an application and six weeks in exceptional cases. The means you suggest for shortening that period is the cash credit system?—That is for seasonal or short-term cash credit.

Have you any hopes of your bank adopting that principle?—We have not tried it because in order to try it, it requires the Registrar's sanction. I am told that he has now sanctioned it.

For that purpose do you think it would be desirable to have a seasonal estimate of short-term requirements?—Yes.

Would there be any difficulty in getting that from the existing staff?—No, it should not be difficult. The existing staff visits every society twice in every quarter.

Once the system was explained, would it be difficult for the people to fall in with it?—No. I have seen that this system has proved a success in Madras.

Would it be advisable for you to make a very clear distinction between short-term and long-term loans?—Yes and between intermediate terms.

For what purposes are intermediate loans required?—For example, purchase of cattle.

Are the cattle purchased for the purpose of breeding?—Yes, and also for draught purposes. In 1928 Rs. 83,000 was lent on long-term and of this Rs. 14,500 was for cattle purchase.

Would you class that as an intermediate loan?—Yes.

Do you contemplate having a separate department of the central bank dealing with these different kinds of loans?—The same machinery can be employed for this purpose for loans up to five years but for the long term of course a separate department would be necessary.

You suggest that long-term credit should be extended to 30 years. Is not that a little dangerous in the case of the ordinary cultivator?—It might be unless it is properly supervised. But then unless you have a fairly long period loan in the case of purchase of land or real improvements of the land which gives back profit it would not be possible for the man to repay it.

Would there be many improvements on which the return would not be obtained under 30 years?—If 30 years is a long period, you may cut it down to 25. I want to have a sufficiently long period.

Do you admit that the first need of the agriculturist is to get rid of his existing burden of debt?—Yes.

Would you suggest anything like 30 years for amortising that?—Yes. Unless you have a long period it would not be possible to save out of his annual income and then repay the loan.

You say that the institution of the joint family would make it difficult to operate land mortgage banks. In what particular way is that institution an obstacle to the smooth working of such a bank?—By the creation of encumbrances. It may be difficult to ascertain the share of a particular member and other things.

Are you contemplating loans to a particular individual of a joint family or to the joint family as a whole?—To individuals. To the whole family it would be more difficult.

Can you safely lend to a particular individual of a joint family on the security of his share in that joint family property?—Yes, provided we are sure of the title.

Then you say that the cost of enquiries at the registration offices is almost ruinous. Have you any experience?—Yes, we have to make inquiries in our societies.

What does it cost to make the inquiry?—I think Rs. 2 for the first year and Re. 1 for subsequent years.

In speaking of marketing you state that the unscrupulousness of the middle men stands in the way of any rapid growth. What form

does that unscrupulousness take?—They sometimes cheat in weights, sometimes in prices. They quote lower rates as market rates.

What kind of commodity are you thinking of?—Chilly and tobacco.

Do you mean money crops?—Yes.

Is there any cheating about the selling of rice?—The *raiya*s have better knowledge of the usual rates but for money crops they have not that knowledge.

Would you advocate something on the lines of the Egyptian Cotton banks for dealing with marketing of money crops?—Yes. Although Egypt is just trying it, it is desirable that we should also give it a trial.

You are thinking solely of money crops. Are you not advocating anything of that kind for rice?—No.

You suggest that the marketing association which you propose should arrange for the transport of the goods from village to the market. Would you employ an agency similar to the *bepari* agency?—The marketing agency would exist for the benefit of all the members; the *bepari* works for his own self.

Why do you want to get rid of this particular class of people who are fulfilling this function at present?—Of course they are fulfilling a very important function but they are exploiting these people. We want some association or organisation which would perform this middleman's function more efficiently and at the same time would try to secure better the interests of the people for whom they work.

Take the case of tobacco. Is it not a fact that tobacco in the village is usually bought up by three or four wealthier *raiya*s on the field and cured by them? Are they not in a position to deal on equal terms with the *bepari*?—No, they are not. The *beparis* are generally working as agents for the bigger firms. They can prevent these people from getting better prices elsewhere. In one society they invested Rs. 2,000 and we sent men to Gaya to have a better market but they were not experienced and they lost over the transaction.

Do you expect any better results would accrue if you had organised it on a larger scale?—Yes, if we could get better trained men. But the sale societies, as we are having now, I do not think, would succeed because they are usually on a very small scale.

How would your proposal differ from the existing sale societies?—My proposal is that the articles would be brought to a central place in a particular area where it will be weighed, graded and sold and anybody requiring finance would be financed and nobody would be allowed to sell to anybody else unless it is done through this organisation. In the sale societies you have a small number of people employing a man as manager. In the marketing organisation the direct control of all the members or of their representatives will be more effective.

Do you think that a democratic control by a number of small growers is likely to be able to compete against an expert individual selling?—I do not think that.

In that case would you not always be left with your stock unsold while the other people have made their profits?—They may not be given the power of directing the operation but the interest you create in them will be a sort of check on the activities of the executive.

Who will decide whether to sell to-day or wait for another week?—The committee will decide on the market reports received from the headquarters committee.

Will you get better business men on the committee at headquarters?—There is to be an organisation in the interior as well as at headquarters.

How are you going to pay all these people?—By commission on sales.

And the local marketing organisation?—The manager should be paid.

Are they going to be paid at the central organisation?—Yes. Unless you pay the directors you would not get the right sort of people to assist you.

Do you think the overhead charges will be very much higher than the ordinary merchants?—If it is done on a large scale for a district, I do not think it would be high.

Professor Batheja: Are not some educated people associated with the enterprise?—Yes: But being honorary workers they would not take very much interest.

Is not the reason for the success of Bengal Sale Societies that in Bengal normally speaking greater business ability is available for this undertaking than in Bihar?—If you mean rural Bengal, I do not think so. I should think that Bihar has got greater ability.

I am talking of the particular organisation?—They are really directing the whole thing.

Chairman: Will the headquarters people say you should sell now?—At the early stages they would do so. After the local people have got training, the headquarters people would merely report prices.

In the first stage would you have paid directors, paid merely by fees, deciding all over Muzaffarpur when to sell tobacco?—Yes.

Do you think they would decide better than the merchant who has been in the business for years and years?—I should think they would not be worse but the merchant who is there is not in touch with the whole market.

Where does the local control come in?—That would come in later on when you give local people the power of deciding sales.

Then the really important business of deciding when to sell would be carried on by your central marketing organisation?—Yes, at the early stage.

Professor Bhateja: Is it not a fact that co-operative selling is beset with great difficulties?—Yes.

Chairman : If the directors of your central marketing organisation make a bad mistake on whom does the loss fall?—On them as well as on the whole association.

Would you make them personally responsible?—In that case nobody would be willing to work.

Professor Batheja : Will the members of the association be happy if there is a *bona fide* loss?—The merchants themselves may make mistakes.

Is not the prospect of losing your fortune an incentive to minimise your mistake?—I do not. There is very much chance of making a common mistake. I should think they would err on the other side.

Chairman : Is not courage the essence of good business?—Yes.

Professor Batheja : And selling at the proper time?—Yes.

Chairman : You state that the rural societies are mostly under-financed. What proportion of the assets of the members do you think is already hypothecated?—Not more than 25 per cent.

You state that there is very keen competition between the Muzaffarpur Central Bank and the local joint stock banks in regard to deposits. Has that led you to reduce the rates of deposits recently?—No, not due to competition. We could not just invest the funds we had, rather we had some surplus and had to reduce the rate of interest.

Professor Batheja : Do you think that the joint stock banks perform a useful part in financing commerce and industry?—Certainly, to some extent.

Do they also require funds for these purposes?—Yes.

Suppose there were subsidised competition against joint stock banks, would not you agree to the principle of protecting the joint stock banks?—I should think when compared with co-operative banks they differ. They are subsidised for taking deposits from a particular locality and they invest the money in that locality. But the joint stock banks take money from one place and invest in other places. Another thing which has increased competition is if a bank can offer better interest the people would naturally go to that bank.

But if the joint stock banks do not get that amount of deposit which they require for the purpose of financing industry and commerce then they will not be in a position to discharge their proper function?—They always get it.

Is there any reason why the co-operative central bank should offer more attractive rates than the joint stock banks?—The reason is that the co-operative bank has a prior claim to the *raiyat's* money.

Why?—Because the bank is investing the money there for the people of the place.

Is it not a fact that the co-operative central bank does not finance industry and commerce?—They do finance to some extent.

Is it not a fact that central banks offer greater security for the deposit to public than joint stock banks, at least is that not the general belief?—Because it is a Government bank.

If the security of the central bank is greater, do you not think that the central bank should charge a lower rate of interest on the deposits?—We are lowering our rate of interest.

Is it lower than that given by the joint stock bank?—No.

To some extent, would you agree that the joint stock banks have a legitimate grievance in this respect?—No, I would not. They are out to land people who are rather exploiting the *raiya*s and we are out to protect them.

What do you mean by exploiting?—They are profiteering also.

Chairman: Is it your experience that the ordinary *bepari* is a wealthy man?—No. But a certain amount of illegitimate profiteering exists. He is taking an undue percentage of profit.

If the *bepari* is at present taking an undue percentage of profit, why do not more people come to the trade?—There is an organisation among them which is not very easy to enter into.

Is it not open to other men?—It is. But there are many sorts of assistance which any other man would not get unless he belonged to the same caste, for example, temporary advance, which any outsider would not get.

Is that your experience in Muzaffarpur?—Yes. Many educated young men started grain dealing business but they could not penetrate into the inner ring of the *bepari* and were pushed out.

By what means?—That is they were not given facilities in the godown and by other methods. In the villages the *beparis* have got a sort of territorial distribution of business among themselves and when these people would go to make purchases the *beparis* would charge a little higher rate.

Will not the result be that the *raiya* will get higher prices?—That is only temporary just to oust the competitor.

Would you call that activity legitimate?—I would not. It is legitimate for the person and not for the country.

Is there any means of preventing this practice?—Yes, if you have some organisation.

You speak of co-operative societies having not succeeded in developing the habit of savings. Is it your view that the ordinary member of the co-operative society in Muzaffarpur has opportunities for savings?—Yes. He can have deposit accounts in a society.

Has he got a surplus?—At least he has more surplus than what is represented by his deposits.

Professor Batheja: Are the deposits of co-operative societies evidence of thrift or the evidence of a desire to have a technical qualification for getting the benefit of the membership of a co-operative society?—

They are neither. These deposits are mostly in a very large cases bogus deposits. In some cases they are secured by the managers in the shape of deductions from the loans. There has not been much genuine thrift.

Why are they extorted?—To show good work.

Do you not regard it as a real thrift?—Personally I do not think so.

If they have savings, would they prefer to invest that saving somewhere else?—Yes, they do. They invest their money in the co-operative society because they get higher rates. There is another thing. If they can save something they ought to spend on liquidating their debt on which they have to pay a higher rate of interest.

Do you think that these deposits are a sort of co-operative window-dressing?—Not exactly so but they are not very satisfactory.

How would you run a co-operative pawnshop?—The society will be started by ten or twelve men who are interested in this work and the rate of interest should be kept as low as possible. People who are really indebted and have no assets should be encouraged to become members. One of the members should have some knowledge of rudimentary valuation of articles. It should borrow money from the central banks and lend just as the ordinary *bania* does.

Would not business capacity of a fair order be necessary?—Not of a very high order.

Is there any chance of fraud in assessing the value?—Yes, there is.

Is it a fact that in the modern co-operative society there are one or two strong men who sometimes serve the co-operative society not for the benefit of others but for their own personal benefit?—Not just now. It may ultimately degenerate into a one man's show.

Would there not be a danger?—There is the same danger in the existing co-operative societies.

Do you think that a co-operative pawn shop will be better than a State pawn shop or a pawn shop regulated or controlled by the State?—If the State follows the lines which I have suggested, that is out of the interest realised it credits a portion to the savings of the person, I would not object.

**Babu HARICHARAN GANGULI, Zamindar, Colgong,
Bhagalpur.**

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

(a) Tenant obtains finance from local creditors, zamindars and co-operative society.

(b) For improvements from zamindars.

(c) For other special needs he obtains advance from zamindars and Government and also loans from local creditors.

The rates of interest charged vary from Rs. 36 to Rs. 6 per cent. per annum. The advances are taken during the sowing season. Standing crops are generally the securities given and accepted and the loans for long-term credit are taken on securities of lands and other properties.

Very few of the agriculturists in the interior on account of difficult approach to Government, Imperial Bank and other constituted banks and considering various sorts of inconvenience and being in want of other facilities obtain finance from them. They generally transact business with local professional money-lenders who readily afford to pay them money on high rates of interest which the tenants prefer to other credit agencies although the latter advance money at cheaper rates of interest. Merchants and dealers generally advance money to agriculturists without interest on the security of standing crops which when ready is given to them at cheaper rates for which the contract is made between the parties at the time of advancing money.

2. There exist many defects in the present system of advances and loans some of which are shown below—

- (1) The high rates of interest charged by professional money-lenders which hurls the tenants to poverty.
- (2) Want of easy approach in case of Government, banks and other public agencies.
- (3) Ignorance of the agriculturists of the ways and means by which they can secure money at cheaper rates without putting their properties in risk of losing them—most of them being illiterate.

It may be suggested that the system (if any) can afford the agriculturists facilities of place, time and cheap interest it may be of great help to them.

The agriculturists take their crops to local markets and sell them to merchants there and in some cases the traders themselves visit the villages and purchase and bring them to their warehouses and then despatch them to different places where they are required.

Under thana Colgong the value of land for paddy and *rabi* crops varies from Rs. 300 to Rs. 100 per acre and for potatoes and other vegetables Rs. 400 per acre.

(a) Value of land in Government auction for non-payment of revenue does not fetch proper value. It is in accordance with the amount of arrear for which the property is put to auction.

(b) Value of land in the event of sale by court decree is also not commensurate with the class of land. It is often sold for the decretal amount and sometimes more when there is competition among bidders.

(c) Value of land in purchase by private negotiations varies from Rs. 400 to Rs. 100 per acre according to the class of land in consideration of the production power of crops as detailed in answer to question no. 3.

The answer to first part of the question is "No". The answer to second part is "Yes".

Societies are formed in villages under co-operative bank and the members receive money from the central bank of the district and repay it by instalments fixed by the said bank. The societies are not successful everywhere—the members being illiterate—otherwise the system is good and if worked properly can be salutary.

Under Colgong thana in villages there are no other industries than those of *gur*-making and hand-spinning for *tasar* manufacture—the latter being not prosperous for want of encouragement in the shape of purchases and want of finance.

If tanks, wells and other sources of irrigations in places where they are not in existence be excavated, sunk and created it may give employment to the farmer during seasons when he cannot make full use of his time on his farms.

Advance from Government or other banking agencies at nominal rate of interest would serve this end.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

There is no other institution here for providing facilities for the investment of savings than the postal savings bank which on account of low rate of interest is not attractive to the public. For the places in the interior there is none.

Postal cash certificates are not popular here which is, I think, on account of very little attention of the postal authorities. Many persons have no knowledge of it even that the system is in existence. Even literate persons are not afforded proper facilities to make transaction in postal cash certificates. The existing terms of issue need a change.

Special facilities other than those in existence are, in my opinion, needed to be granted to small agriculturists and small investors in villages although a few persons only are in villages who would like to invest money in such securities. They are in the habit of advancing loans on higher rates of interest than those fetched by the Government securities.

Babu DEBI PRASAD, Manager of the Estate of Babu HARICHARAN GANGULI, Zamindar.

Oral Evidence.

Chairman : For how many years have you been the Manager to the estate of Babu Haricharan Ganguli?—For the last 30 years.

Does the estate which you manage extend very far from Colgong?—No, it is only in the Colgong thana and partly in Kotwali thana in the district of Bhagalpur.

That is on the Santal Parganas border of Bhagalpur?—Yes.

Are many *raiya*ts of your estate Santals?—There are no Santals in our estate.

You say that the co-operative societies formed in your part of the Province are not successful everywhere. Are any of them successful?—There is only one society in the jurisdiction of my zamindari and it was recently started about two or three years ago.

Are you taking any personal interest in it?—No, I do not take any interest in the same. !

You say that the postal cash certificates are not as popular as they should be. Is there a good deal of savings by the tenants of your estate that might be utilised?—I do not think there is much saving. Whatever savings there are they are utilised in giving loans to poor *raiya*s.

Do they buy land?—Yes, they do.

Why do you think that there would be more use of postal cash certificates?—At present people do not invest in these certificates only because they have no knowledge of the business.

You think that if they had knowledge they will invest in that form of security?—I think so.

At present are not literate people afforded facilities to make such investments?—There is only one post-office in my zamindari and the issue of postal cash certificates is not so popular at present.

Are there any difficulties about buying postal cash certificates in your place?—There is no difficulty at all.

Have you bought a cash certificate yourself?—Not now. During the war I did so.

Professor Batheja : What was the special inducement for buying it during the war time which is not available now?—During the war the officials were trying their level best to induce all persons to purchase postal cash certificates.

Chairman : Do you mean to say that there is no backing for it now as before?—Yes.

Is not the return on postal cash certificates as good as can be obtained from land?—I do not think so.

Professor Batheja : What is the return which can be obtained from land?—Nowadays the return is between 6 and 10 per cent.

Chairman : Does Babu Haricharan Ganguli do any money-lending himself among his tenants?—Yes, he does sometimes whenever there is a failure of the monsoon.

What interest does he charge for that?—About 6 per cent.

So he does it then practically as a charity?—Yes.

He has no money-lending business on commercial lines?—Not generally.

Is there any opportunity for a zamindar of your employer's position to do money-lending business and thereby cut the rates of the village

mahajan?—Some of the zamindars who have enough capital do lend money.

Supposing capital is provided to him at a cheap rate of interest, would he be prepared to undertake that work, especially short-term loans?—Yes.

Do you think that if the landlords in your part of the country were provided with finance by an agricultural bank they would meet the needs of their tenants for short-term loans on more favourable terms than the village *mahajans*?—Yes.

Will they require any special facilities to collect the loans?—The present establishment would be able to manage that business as well.

In your zamindari are the tenants on good terms with your zamindar?—Yes, they are on very good terms.

Is there any opportunity for land improvement in your part of the country? Is there any need for irrigation facilities?—Yes, there is need for improved irrigation facilities.

What sort of irrigation would be suitable there?—Channels could be dug out from rivers at distance.

Would it not be better to have wells instead of channels?—Vast areas cannot be irrigated by means of wells. Moreover, the level of the water is too low.

Have you seen any wells worked with pumps?—Yes, I have seen them. Of course, they will also be useful.

You do not anticipate any large need for capital investment for this purpose in your part of the Province?—I do not think so. The *raiya*t and the landlords can meet the expenses.

So you do not think that there is any need for immediate development of this scheme?—No, there is no immediate need.

What is your experience of the way in which the money-lenders deal with the *raiya*t in your zamindari? Do they deal fairly or is there a lot of trickery by the *mahajans*?—The *mahajans* generally cheat their clients. They do not keep accurate accounts.

Do you consider that the people who trade in agricultural produce make an unduly large profit?—I have not seen such cases.

Does the ordinary *bepari* exploit the *raiya*t?—Not to my knowledge.

Would it not be possible for a *raiya*t if he found he was getting bad prices from the *bepari* to seek a bigger market and better price, so far as the country crops are concerned?—Yes. Nowadays they make *gur* themselves out of sugarcane.

Do they find any difficulty in selling *gur* in the market?—They do not find any difficulty in selling at all and there is a fair amount of competition.

Do you believe there is much room for organisation for selling the produce of the agriculturist or do you think the present system works pretty well as it stands?—The present system is working fairly well.

Babu SHAMBHU DAYAL, B.A., Income-tax Officer, Darbhanga.

ANSWER TO QUESTION NO. 1.

There are different systems in different districts in the Province of Bihar and Orissa by which the agriculturists obtain finance for (1) expenses in doing cultivation, (2) for capital and permanent improvements, and (3) for other special needs. I have experience of three districts, i.e., of Shahabad, which is my home district and Champaran and Darbhanga districts, where I have worked as Income-tax Officer. Even in one district there are different systems for raising fund according to the backwardness or ignorance of the agriculturists. In the central and northern Shahabad where there is prosperous tenantry and the predominance of the middle class people as compared to the rich and the poor, finance is obtained by mortgage of (1) land, (2) ornaments, (3) on security of cattle or crop or lastly on personal security. There are two sources from which the cultivators obtain finance—(1) from professional *mahajans* or money-lenders and (2) from the landlord whose field they cultivate or from their major partners or capitalists. The rate of interest and security varies according to the amount required. If the amount be large, say Rs. 1,000 or more which is needed for capital and permanent improvement, such as construction or expansion of water reservoirs or purchase of lands or bullocks or cattle, it is generally secured by mortgaging land by usufructuary or simple mortgage. The general rate of interest for well-secured loan is Re. 1 to Rs. 1-8-0, i.e., 12 to 18 per cent. In special cases when the amount is very high the rate of interest is 9 per cent. but it is generally never below that amount. For smaller loans which are required for expenses for cultivation or other purposes, if it is taken on security of ornaments or utensils or if the borrower is in affluent circumstances in the eye of *mahajans*, although he does not pawn ornaments, the rate of interest is generally 2 pice per rupee per month which is called *takhi sud* or 24 per cent. This is the general rate by which the small cultivators or poor people get loan from their landlord or rich co-villagers. The only instrument by which the loan is procured is handnote or *chitha* or sometimes also unstamped *chithas*. Those who are very poor or have no cattle or sufficient land or the *mahajan* does not expect to realise anything from him, he is compelled to borrow from the *Kabulis* or *Punjabi* money-lenders called *Moghuls* who come to this part of the country for money-lending business. They charge interest at the rate of one anna per rupee and deduct *salami* of one anna at the time of payment. They advance loan in the month of *Asarh* to *Bhado*, i.e., at the time of cultivation, and they realise the loan in the month of *Aghan* with interest at the rate of one anna per rupee

per month in addition to one anna *salami* which they deduct at the time of payment. The rate of interest amounts to 75 per cent. and including *salami*, which is deducted at the time of payment, to 81½ per cent. They realise the loan mercilessly from the poor people by the sheer power of *lathi*. These agriculturists, who have no other means to raise loans, are compelled to borrow money from this source. There is a system of grain lending which in that part of the country is confined mostly in dealings with the landlord and his tenants. If the tenant requires seed from his landlord or from his major partner the capitalist or professional *mahajan*, if there be any, he has to pay interest at the rate of 50 per cent. in six months. If he will borrow paddy seed of one maund in the month of *Jeth* or *Asarh* he will have to pay back 1 maund 20 seers in the month of *Aghan* or *Pus*. If he will require grain for his own consumption or for giving to labourers he will have to give interest at the rate of one *paseri* or five seers per rupee after harvest. This is called *chhara* in that part of the country and it amounts to 25 per cent. in six months. In the southern part of the Shahabad district, i.e., in the hilly and jungle tracts near Rohtas Hill, where the people are backward, the lowest rate of interest is 2 per cent. on mortgage or handnote and there are numerous Pathans and Punjabi money-lenders who invest money at the rate of 60 to 75 per cent. and the only security is the cattle of the agriculturist or his personal security. In Champaran district in which the two classes of people generally predominate, i.e., the rich money-lender who is also invariably a cultivator and the poor labourer or the tenant. The number of middle class people in this district is smaller as compared to other districts. In every village there is a *mahajan* who is also a cultivator whose business is to lend grain to tenants or labourers. There is no system of money-lending excepting on big loans and the agriculturists borrow grain from village *mahajans* at 50 per cent. interest for six months or so. Grain advanced in the month of *Jeth* or *Asarh* are realised in *Aghan* or *Pus* and that advanced in *Kartick*, in *Chait* or *Baisakh* at the rate of 50 per cent. interest. There have been cases in which *mahajans* have realised one hundred maunds for loan of five maunds. The only instrument by which the debtors get loan is by putting a signature or thumb impression in the account book of *mahajan* which is called *hisabi bahi*. The account passes on from generation to generation and ultimately the debtor has to sell his land to the *mahajan* which is the chief motive for which grain is advanced liberally. Among *Tharus*, i.e., the tribe living on the border of Nepal, there is a much harder system of usury. The *asami* has to sign a slavery bond in which he consents to give labour, sleep at night at the field of money-lender, watch his crop and go wherever he is asked to go in lieu of interest. He is only absolved of this when he pays back the money with full interest otherwise he remains in perpetual slavery. This is the means by which labour is procured in that part of the country by big cultivators. There is one class of money-lenders called *Belwars* in the north-western part of the district of Champaran in the valley of Gandak on the border of Gorakhpur district. Their

business is to go out for lending purpose in Nepal and northern part of Champaran district as well as Gorakhpur, Ballia and Basti districts and they advance loan at the rate of 5 annas per rupee for six months which is called *panchania* system. They also advance money during the months of cultivation, i.e., *Jeth* to *Asarh* and realise by *Aghan* or *Pus*. The money advanced in *Kartik* to *Aghan* is realised in *Baisakh* or *Jeth* at the rate of 5 annas. So in certain cases interest is realised at 10 annas for one rupee. In the district of Darbhanga there is system of both money-lending and grain-lending. The system of grain-lending is the same as prevalent in Champaran and the rate of money-lending is from 1 to 2 per cent., according to nature of security. In the districts of Darbhanga and Champaran there are also loans given by sugar companies and indigo planters on security of standing crops of sugarcane and indigo. In this case no interest is taken but the cultivator has to make an agreement that he will sell the crop at a certain rate which is generally much lower than the market rate. This is done through the agencies of European planters who take commission or royalty at the rate of one anna per maund of sugarcane from the sugar companies. The cultivators, who are given advance of money through the agencies of the European planters for expenses of cultivation, have generally to sell their sugarcane at the rate of 6 annas per maund when the market rate is 8 annas per maund. In case of *Khushki* indigo, the cultivator has to sell at the rate of 4 annas per maund when the market price is 5 to 6 annas.

In my opinion the Imperial Bank of India or joint stock banks whose activities are mostly confined in towns and with the traders, generally do not invest money to agriculturists for the purpose of cultivation to any appreciable extent nor do they tap this source. The co-operative banks have made some progress in the rural area though not to the extent to which the indigenous banks have done but the general impression is that the co-operative societies have not been so successful as expected. There has been failure of several co-operative credit societies for want of proper education and co-operation among the members. Co-operative banks are giving loans at moderate rate of interest but the loans in some cases are granted indiscriminately and the members do not realise the responsibility of repayment and not very often fail to pay the *kist* and incur penal interest and sometimes it happens that their lands and belongings are sold in payment of loans of the society in course of a few years according to strict rules of the society. For want of proper education there is no spirit of co-operation and fellow-feeling generally and so one member has to suffer for the folly of other members and so some of the societies are becoming unpopular. The ignorant cultivator still clings to his old *mahajan* whom he considers to be more kind and considerate than the society, as he spares the rod and does not force immediate payment but allows the interest to grow when he can take all his land.

It is very difficult to give any accurate estimate of the total amount of capital required for agricultural purposes in a district or a province.

An estimate of capital of such indigenous banks who are liable to income-tax would be submitted officially through the Commissioner of Income-tax.

2. The principal method of marketing crops is through village *bantias*. The village *bantias* take the crops to the *goladar* or dealer in grain who exports to Calcutta and other places. Only big cultivators have direct dealings with *goladar* and I think none export to Calcutta or foreign countries. There are generally two or more middlemen before the crop reaches the consumer.

There is possibility of forming pools if done through reliable agencies. The indigo planters, who are educated people, form pools for indigo produce. In some of the villages farmers combine in taking their produce through boat or bullock cart in town for sale but there is no such general practice. I do not think there are much facilities for the financing of the products during marketing. There is not much credit business done between the agriculturist and the middleman. The middleman generally purchases cash unless the trader is well-known to the cultivator.

II. INDIGENOUS BANKING.

Besides the village money-lender described above there are indigenous banks in towns who carry on money-lending business, receive deposits and transact in *hundis*. There are of course very few such bankers whose sole business is money-lending. As every rich and monied agriculturist is a banker in the village so every rich and monied trader is a banker in the town. There are only a few big bankers in a town who have only money-lending business. Although the money-lending business is the only safe and sure way of earning profit, but the temptations of higher profit in trade engage most of the bankers to trade. Those whose business is chiefly confined to banking or of those who are traders and carry on banking business also carry on *hundi* transaction and also receive deposits. The last transactions, i.e., receiving of deposits, is very few and there does not seem to be general practice among those who save money to deposit with any indigenous banker unless the banker is the relative or otherwise connected with the depositor. Everyone would like to deposit savings in joint stock banks than with an indigenous banker although he would get larger interest from the indigenous banker. *Hundi* transaction is confined mostly to such traders who have got dealings with Calcutta merchants. *Hundis* are generally cashed at Calcutta and so far facility of payment to Calcutta merchants and in order to save expenses and risks of sending money by post or otherwise *hundis* are taken in large numbers by the traders. The time-limit of payment of *hundi* is generally two months and interest is deducted from the amount at the time of payment in advance. The general rate of interest on account of *hundis* or on loan by handnotes or on balance of business transaction is 10 annas per cent. per month, i.e., $7\frac{1}{2}$ per cent. The interest on the deposits is also the same. In course of transaction, whoever be the debtor and creditor,

at the end of the year on the balance unpaid interest calculated at 10 annas per cent. per month is payable to the creditor. The big dealers in cloth and grain largely earn on account of interest which they receive from their customers on credit sales. That is why they indulge in large credit transaction and they also receive large goods on credit from Calcutta merchants. A trader will not get money in cash from an indigenous banker unless he gives some property as security but he can get any amount of goods on credit. So the indigenous bankers are not so much helpful for advancement of trade as the wholesale merchant. There does not seem to be the popular idea among the indigenous banker to invest money on security of goods as some of the joint stock companies and Imperial Bank are doing. Joint stock companies and Imperial Bank are now advancing money on security of goods to rice-milling industry at Raxaul in Champaran district, Jainagar and other places in Darbhanga district. The rate of interest in town and that used for business is standard according to the money market and is not considered so hard by the trader. But the rate prevalent in the rural area is highly excessive. This is due to paucity of cash fluid in villages and inherent apathy due to ignorance to invest savings. An agriculturist would not like to make short deposit in order to earn interest or use the saving in allied industry of agriculture such as dairy farming, etc., but invest in ornaments or hoard it till he gets suitable opportunity to buy lands. Money may lie idle for a year if no transaction is done in *Baisakh* or *Jeth* which are the months in which sales, purchases or mortgage of lands is done. Unless there is a reliable joint stock company he will not deposit money and an ignorant cultivator would not like to part with his money unless there is a security to his satisfaction. If a joint stock company on co-operation basis or a co-operative association of indigenous bankers is established in rural areas the fear of losing money when deposited will disappear from the cultivator and he will feel safe to deposit his savings and he will also feel sure to get money in time of need of agriculture or other expenses. The presence of such banks in villages will popularise the idea of banking and the money market will increase.

Oral Evidence.

Chairman : You are the Income-tax Officer, Darbhanga?—Yes.

And prior to that you were the Income-tax Officer in Champaran?—Yes.

What part of the Shahabad district do you come from?—I come from the Sasaram subdivision of the Shahabad district.

The impression that I get from the earlier part of your memorandum is that the ordinary rate of interest which the small cultivator has to pay is round about 24 per cent.?—Yes, that is the general rate for small loans.

Do you consider the amount of lending done by the Kabulis and people of that kind very important compared with the total amount of lending in the rural areas?—Yes, I consider it very important for such people who cannot get loans from landlords or *mahajans* without sufficient security.

Do they supply any appreciable part of the total loan?—I think so. In a village they lend about Rs. 200 to Rs. 300 to small cultivators and the labourers.

What do you think will be the effect if measures were taken to prevent the Kabulis from operating in this business?—I think it would be a wholesome provision for reducing the rate of interest in rural areas.

I gather from the evidence you have just given that if these Kabulis are eliminated the total loanable capital in the village would be appreciably reduced. Would that be altogether advantageous?—I do not think there will be any harm if we do so.

How would you fill up the gap created by the elimination of this agency?—If Government would create some agency it would fill up the gap.

Do you think that any joint stock bank is likely to lend to the people who at present go to the Kabuli?—If it could be advanced through co-operative societies in which these people are represented in order to safeguard their (societies) interests, I see no reason why a joint stock bank should not lend to such bodies.

Would it be good business?—That is a doubtful point, because in most cases there will be difficulty in realisation, as in most cases these people have no property and that is the reason why they resort to the Kabulis at present, who do not take any security.

Would you recommend that a Kabuli who is convicted should be deported from the province much in the same way as *Goondas* are deported from Calcutta?—I do not think that will be proper. They do not use force in all cases, I think, in the realisation of their dues, they simply terrorise people without using the *lathi*. So I think, we cannot bring them under the provisions of the Indian Penal Code.

Then how will you restrict and regularise their operations?—If these people would lend at higher rates of interest than a stipulated rate, then it should be made a penal offence.

Professor Batheja : Does the Kabuli at present ever go to court at all?—He does not go to court at all, but when there is a threat that he will be criminally liable, then I think it would prove as a useful check to their usurious dealings.

Do you think that his practices can be checked to some extent if he is restricted to bringing his suit to a village court or *panchayat*?—I think that is a good suggestion.

Chairman : You say that among the Tharus in North Champaran near the Nepal border there is a system by which a man agrees to give his manual labour for a long period in return for a loan. Is it your

opinion that this system is restricted to that part of the province alone?—I think it is restricted to that part of the country alone, because slavery was prevalent there from time immemorial and it continues to exist in some form or other even to-day.

You speak of loans advanced by sugar companies on the security of standing crops of sugarcane and you say that no interest is paid on such loans. Do you think that it is a desirable form of credit?—It is certainly not desirable in the sense that the cane-grower who has received the advance has to sell his crops about 25 per cent. below the market rate. Looking at it from another point of view the advice that he receives together with an advance of money, it seems desirable.

Do you think the *raiya*s would get a better price if they did not enter into a contract like that?—I think they will. As I have already said, they will get 8 annas the market price instead of 6 annas. The European planter who acts as the intermediary in the collection of canes takes his commission or royalty at 1 anna a maund.

Is there any reason why the sugar companies themselves should not make these advances?—I think there will be difficulty in realising their dues.

Would it surprise you to learn that one particular sugar company advances to the cultivators directly without the aid of the intermediary (the planter)?—If they know the cultivator themselves and know that the standing crops are good and would yield a good return then they might have direct dealings with the cultivator.

You realise that the main object for making these advances is to secure a steady supply of sugarcane to the factory?—Yes. And that is the reason why the European planter advances money to the cultivator and asks him to grow the best kind of cane. If the outturn is greater then the sugar companies pay these planters a special bonus while the actual cultivator does not get the same. That is why these planters take a good deal of interest in this business.

Professor Batheja : So, if the planter gets an increased price or bonus for a better quality of cane, you say, he keeps it all to himself and does not pay at least a portion of it to the cultivator?—That is so.

Chairman : Why should the cultivator take the planter's advice?—Because the former gets his advance through the latter and he also tells him how to grow the best cane.

Do you think this system is on the whole bad for the cultivator?—I cannot say so, but I am inclined to think that it does good for the cultivator in that he finds a ready market for his produce and there is somebody who advances the money for him. It would, however, be better if a better agency could be found which would advance loans to these cultivators at a lower rate of interest.

Do you think the cultivator will have any difficulty in marketing his produce now that the markets have been fairly well established?—I think there will still be some difficulty.

Which of the three services of the planter to the cultivator is most important to the latter—agricultural advice, marketing assistance or the financial assistance?—I think the financial assistance is the most important, secondly I would place the agricultural advice and the supply of better seed and lastly marketing.

Do you not think the planters are doing a useful service by giving technical advice which would otherwise have to be provided by Government?—I agree.

Professor Batheja : Are you aware of the sugarcane marketing in Siwan?—No. My knowledge is confined to Champaran ✓

Chairman : Do you think that the planter performs any useful function as a middleman?—Yes, he does.

His function is to secure to the sugar company an adequate and good supply of sugarcane?—Yes.

Professor Batheja : Do you think the price paid for his services is excessive?—I think so, but it cannot be helped so far as the relations between the planters and the cultivators are concerned.

Chairman : You talk of similar arrangements made in the case of indigo. Is indigo still grown very largely in this Province?—It is still grown on a fairly large scale in the Champaran district, but not so extensively as before.

Am I to understand that the association buys up the entire products of these indigo planters?—Yes, it does.

You think this combination has the effect of raising the price of indigo in the market?—That is so.

Would you like to have such pools formed in the case of other produces as well?—Certainly it will be very good.

Do you not think that a high degree of business knowledge and experience is necessary for running such a pool?—I think so.

I suppose it will be easier to form a pool with a limited number of members than a pool with an unwieldy number?—It is easier and advisable to form a pool with a lesser number of people. •

I notice your view is that there is lack of co-operation in the co-operative societies as they stand now. Do you see any remedy to that?—I think the remedy lies in better education of the people and making them more interested in the movement. Unless people are made to join the movement and compelled to deposit a part of their savings in the banks, I do not think they will be useful in the rural areas.

Have you had occasion to work with co-operative societies yourself?—Yes, I was the Vice-President of a co-operative association formed at Champaran for dairy-farming which ultimately failed for want of co-operation among members and business skill.

Do you think there is any possibility of extending dairy-farming in this Province?—I think it is possible. We want the capital and the business talent.

Do you not think it will be a success only if it is started near big towns?—Yes. If run on proper lines I think it would not be failure. As it is in some farms they are extracting butter at present which could be exported to foreign countries and thus the business could be made a profitable one.

You say *hundis* are generally cashed at Calcutta. What sort of *hundis* are you referring to?—I refer to the *darshani* or the remittance *hundis*.

Is it your opinion that the vast majority of *darshani hundis* in this Province are drawn on Calcutta and cashed there?—Yes, because it provides facility for sending money when there is paucity of liquid cash.

Professor Batheja: You think there is more lending in the shape of goods than in actual cash?—Yes.

I suppose when the creditors prefer the first form of lending they also make profit?—Yes, they do.

Chairman: You say that in course of transactions whoever be the debtor and creditor, at the end of the year on the balance unpaid interest is calculated at 10 per cent. (per annum) to the creditor. Are not the transactions during the year examined in any way?—They are examined only at the close of the year and made payable then, but interest is charged as on day to day transactions.

You say that the joint stock banks and the Imperial Bank are advancing money on security of goods to the rice-milling industry in some parts of Champaran and Darbhanga districts. Do you find the business is rapidly increasing there?—Yes, it is.

Professor Batheja: Is money advanced only against produce or is it advanced also on the security of assets like machinery, plant and so on?—I am aware of goods alone.

Are you talking of joint stock banks alone or also of the Imperial Bank?—I am referring to both.

Chairman: Are you sure that the Imperial Bank is prepared to lend on the dead stock of an industrial concern?—I am not quite sure so far as the "dead stocks" are concerned but I know they have certainly advanced money to rice mill owners in Darbhanga on security of goods and the Bihar Bank is also doing likewise as well as perhaps on the security of machinery and plant.

Professor Batheja: What is the exact method of the Imperial Bank of India in advancing money to the rice mills? Do they put their own lock and seal in the godowns?—I have no personal knowledge of the same, but I know that the Bihar Bank does like that. It is only on the security of the finished products such as rice that the banks advance loans.

(Professor Batheja and the Chairman explained the idea of the system of the working of licensed warehouses to the witness after which the examination was continued.)

Chairman : Do you think that if the warehouses, in the districts that you have come across, are licensed in the manner just explained to you, it will be an improvement upon the working of the present system?—In my opinion it will not be a profitable business because the *Arhatdars* at present make moderate charges for their services as commission agents for selling goods of their customers. They charge commission varying from 12 annas to 1 rupee per cent. for allowing the sellers to keep goods in their godowns, finding market for them and giving them 75 per cent. of the price of the goods as advance. They also take, in addition to this commission, *chutki* about 4 chattaks per maund.

What rate of interest do they charge on advances up to 75 per cent. of the value of the stock of goods?— $7\frac{1}{2}$ per cent.

After the explanation that has been made to you about the underlying ideas of the scheme of warehousing, do you think it would be an improvement, from the point of view of making finance more easy, that these houses should be licensed, of course retaining the present *Arhatdars* in their business?—I think it would be better.

You are now convinced that it could satisfactorily replace the present system under which the banks are forced to place goods pledged with them under their own seal?—Yes, I think it will be an advantage to the bank and the *Arhatdars* as well.

Professor Batheja : Do you think the present system of storing goods is fairly efficient?—I think so, because they charge very low commission and they get sufficient advance, but if under the new scheme of licensed warehouses, the *Arhatdars* will be able to get more advances, then it will be an improvement on the existing system.

Chairman : You would recommend the existing agency of *Ahartdars* retained and the work systematised rather than bring in a new agency, if the *Arhatdars* would consent to be licensed?—That is my view because I apprehend the new agency will possibly work in competition to the existing *Arhatdars*.

Are these *golas* you speak of spread over all the parts of the Darbhanga district?—Yes, there are some in the rural areas as well.

How many such *golas* are there in the Darbhanga district?—About 15.

What about the Shahabad district?—There are not many there but in Champaran there are about 10 to 12.

—In most of the Bihar districts there will be about 10 centres?—In North Bihar especially there are many more such trade centres.

Professor Batheja : In order to license these *golas* would it be necessary to insure them against fire, damage by insects, etc.?—I think the cost will be heavy. Up till now I have not come across any loss by fire.

Will not the banks insist upon insurance?—I think they will.

Are there any other risks in the *gola* business at all?—I think there may be the risk from flood sometimes. I have known of instances where goods have been damaged by flood.

Chairman : Will there be any objection to your telling us whether you find, as a rule, the accounts which you have examined of *mahajans* are properly kept?—I cannot say about particulars of accounts but speaking generally, my impression is that they are kept in an efficient manner although I am not sure whether all the accounts are correct as far as parties are concerned.

To what class of money-lenders are you referring to?—I am referring to the accounts of a man whose working capital is about a lakh of rupees

You do not examine the accounts of a man whose working capital is generally under Rs. 10,000, do you?—No, we do not generally do so.

There is a large body of money-lenders, probably, of this class in the villages whose accounts you never see?—No, we do not look into the accounts of small money-lenders. I do not think these small money-lenders ever keep their accounts properly except maintaining a list of their investments and bonds held by them, and hand-notes, etc.

I think you have already sent in your estimate to the Commissioner of Income-tax of the total capital sunk in money-lending business. What is the average return that these money-lenders get on their working capital?—After meeting all their expenses the big money-lenders get a return of about 10 per cent. and the small money-lender gets a little more, say up to 15 per cent.

Professor Batheja : Leaving aside exceptional persons who are also money-lenders how many money-lenders and indigenous bankers are there in the district of Darbhanga who have got more than one lakh of rupees in this business alone?—I cannot say that at the present moment.

Do you think, on the whole, indigenous banking is a lucrative occupation?—Yes, certainly. There is no other business which is so sure of a safe return.

Chairman : Do you recognise that broadly speaking there are three classes of indigenous bankers as defined in our memorandum, the big town *mahajan* who actually does banking business to the extent of taking deposits as well as trading on his own money, secondly the smaller town *mahajan* who does not take deposits and thirdly the village *mahajan* who does not take any deposits and who is more or less without any connection whatsoever with the town people? Would you say that is a correct statement?—That is so.

Professor Batheja : What is the nature of expenses of these indigenous bankers and town *mahajans* with whom you generally deal?—They generally employ one *gomastha* or clerk who deals with all accounts, and then they have a *tahsildar* with several peons to realise their dues. Sometimes they have to sue their debtors in courts for

which they have to spend money. On the whole the expenses will, I think, come to about 10 per cent. of their gross profit.

Chairman : That is to say their working expenses will amount to about 1 per cent. of their working capital?—Yes.

These *mahajans* claim reduction of income-tax on account of expenses, do they not?—Yes, they do.

And that is how you came to know what their expenses are?—Yes.

Of their expenses, which item is more important, expenses on litigation or management expenses pure and simple?—Management expenses would be more.

Professor Batheja : Given Rs. 100 as the total expenses how much do you think is spent on litigation, how much on bad debts and how much on management charges?—Taking the average for 10 years I would roughly put the percentage as follows:—50 per cent. on bad debts, and 25 per cent. each for law charges and management expenses respectively.

In how much time is the capital of a banker lent out and received back as repayment of the loans?—That all depends in what manner he makes his advances. If it is on a simple hand-note he recovers his dues within two or three years. If it is a *hundi* he recovers it in three to six months' time as the case may be.

If an indigenous banker were in serious financial difficulties what proportion of his capital would he be able to recall say within three months?—I think for a banker who has no deposits with a bank or does not deal in *hundis*, it will be difficult for him to recover any big sums at such a short notice.

If this is so and if the indigenous banker also accepts deposits he will be unable to meet a sudden call of his clients, will he not?—I think so. Even now they very often refuse the call of their clients for want of money. Generally these people do not accept deposits unless it be from their own relatives or friends with whom they deal informally. They always try to make as much profit as they can with their own money.

Would it be desirable to give some encouragement to the indigenous banker for extending his deposit business?—Yes, it will be desirable if they are given deposits in order that they may be persuaded to lower the rates of interest.

Is it not the practice of the indigenous bankers to invest most money in their own private undertakings?—Yes, sometimes they invest in trade.

Do they carefully distinguish between a long-term and a short-term investment?—Yes, they do.

Will not their short-term investments be available to them in case of emergencies?—It will be to some extent.

Would it not be desirable to give their operations some publicity in order to inspire confidence in the public minds? Would it be desirable to publish their balance sheets?—They would not agree to the publication of their balance sheets at any cost.

Would it not be a serious defect to the extension of their deposit business?—That is so.



सत्यमेव जयते

Thursday, December 5, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHELA. Mr. HODGE.

**Babu SATGUR DAS, B.A., LL.B., Agent, Benares Bank, Ltd.,
Muzaffarpur.**

Replies to the Questionnaire.

Question 1.—Under the present system most of the agriculturists obtain their expenses, either from the petty money-lenders of the various villages or from the *banias* at a very high rate of interest; in very few instances money is also obtained from the Central Co-operative Bank.

The rates charged by the petty money-lenders or *banias* are anything between 12 to 15 per cent. (Interest sometimes charged at the rate of 2 annas in the rupee per month especially from low-caste artisans whose only security is their daily earnings.) The security given in the villages are mostly in lands and sometimes in crops, ornaments, etc.

Imperial Bank or other banks do not as a rule advance money on landed properties, but they do on stock or standing crops. Some of the companies give credit to reliable parties to push their stock in the market.

These are agricultural districts and for their development large amount of money is required; it is not possible for the landholders to make all these improvements unless Government lend their helping hand. At places tracts require draining and in other places arrangements for irrigation will improve the land a good deal; now the cultivators have to depend entirely on the monsoons. The agricultural works in the districts are still carried on in the most primitive way: all of these can be improved, but they require large amount of money. The big landholders can show the way for bettering the condition and can help the *raiyyats* with their example with better class of seeds and implements to a certain extent, but educating the mass in this respect by agricultural shows and explaining to them how money when required may be obtained in a cheaper method than at present, would do most good.

Question 2.—Petty agriculturists generally sell their output in the local *pathia*. From these petty *mahajans* take it to the nearest *gola*

where people from different districts come and buy the crop they want. In *pathias* local people also purchase their requirements. Pools will be beneficial to large producers, it will save them from the hands of the middlemen who make most of the profit at a minimum cost. But it will not be helpful to the small agriculturists unless the pools make some advance against their crops.

Banks or merchants (*aratdar*) generally advance a certain per cent. on the stock which they realise when the same is sold or removed from their custody.

Money-lenders prefer advancing monies on *hundis* in which they can know that on a certain day they can expect a particular amount of receipts and borrower has to be more alert. Owing to high stamp duty on *hundi* business suffers. If duty is considerably reduced, I think the use of *hundis* will be increased several times.

Cheques drawn by ladies signing in vernacular need not be attested and vernacular endorsements to be accepted by bankers.

Some provision should be made for early disposal of suits on negotiable instrument. *Pendente lite* interest up to 12 per cent. must be allowed and interest on the decretal amount also should be about the same according to the original contract. Reduction of interest by courts in every case to 6 per cent. stimulates litigation.

If licensed warehouse system was introduced in all the grain centres it would benefit the agriculturists in many ways, but at present in general agriculturist class is so very ignorant that it is doubtful whether they will take advantage of this till they see the utility of it.

Without Government assistance no such ventures will be attempted outside the big cities.

Question 3.—The value of land in this district ranges from Rs. 100 to Rs. 500 per bigha (generally). The actual value can be gauged in private purchase. Government auction or sale by court fetches very often less than half the actual value.

Question 4.—Lands are mortgaged and money raised thereby. Mostly private parties are mortgagors. Co-operative Credit Banks advance money against landed security but free advantage of it is not taken by the people. If agricultural banks are introduced in big centres with branches in the interior districts it will help the agriculturists to a great extent.

If the agricultural banks advance money with sufficient margin against the lands there is very little chance of incurring any loss.

The price of land is increasing and not decreasing. If a reasonable interest (9 per cent.) be charged it will not be a burden to the agriculturists and it should pay the expenses easily. I have already mentioned about the rate of interest charged here. Most of the farmers are poor and in many cases they are being turned into tenants for old debts and their property is passing into the hands of the creditors.

Yes, the rulings in the matter of joint families have been such that it is almost impossible to make advances to joint families against securities of lands. Searching of the records is also an expensive matter and the creditors always remain in doubt whether the lands are clean.

Properties under the Hindu law and specially under the Muhammadan law are subdivided very widely on the death of the proprietors which hinders any progressive development of the lands on modern method.

Registration office must revise their indexes from year to year and every such index to be complete of itself.

In this province especially, the process of law is very dilatory and consequently the inhabitants are very litigious. The High Court should interfere or some other summary process adopted.

Every Insurance Company should keep part of their assets in loans against landed properties and the Imperial Bank of India should do the work of land mortgage banks for bigger amounts and longer periods. Imperial Bank also to finance industries.

Question 7.—In this question I shall treat the position of joint stock banks rather than that of the co-operative banks.

The joint stock banks have to compete against one another, co-operative banks, the Imperial Bank of India, the exchange Banks, the indigenous bankers, insurance companies and against the Government. Competition against one another and the indigenous bankers results in better work. The co-operative banks and the Imperial Bank of India have an unfair advantage over the joint stock banks. Co-operative banks are in a position to advance money at a higher rate and realisation of such money is easy as they can get an award without much trouble. They, therefore, give better rates on their deposits. They are considered as semi-Government banks by the public; high rate of interest and good credit attracts deposits. The Imperial Bank has the reputation of being a Government bank. The rates at which Government loans are floated and the yield on the post office cash certificates are sometimes higher than the interest paid by joint stock banks on their deposits.

The Imperial Bank being the custodian of immense monies of Government at no interest or nominal interest, being able to secure deposits at very low rates and being helped by Government on every occasion (e.g., the flotation of the last loan of the Government of India meant a clear profit to them of about half a crore of rupees) is in a position to advance monies at low rates.

The joint stock banks have therefore very great competition for obtaining deposits and have to content themselves with second or third class securities in matters of investment. The joint stock banks cannot extend their business by opening fresh branches lest Imperial Bank may follow them there, where work is hardly sufficient to feed a single bank. Imperial Bank rate must be a true indication of available money

in India and the rate should not be raised for exchange purposes, by artificial contraction of available money. As a matter of fact the Government of India have given sufficient try to the 1s. 6d. ratio and now that the transition period is expected to be indefinite it is high time that they should give a chance to the 1s. 4d. ratio and see if that be the natural ratio. There should be no political bias and racial distinction of any sort in banking matters. The Imperial Bank of India should freely advance to joint stock banks in overdraft accounts against Government papers and inland bills to be rediscounted with them. The Imperial Bank of India itself secures loans under emergency currency regulations against inland bills from Government of India. They should allow joint stock banks to issue drafts on them against securities or deposits. They have not to incur any expenses in transferring cash from one place to another which is being borne by Government and generally they have enough Government money to meet such transfers. They should transfer monies free and credit cheques in accounts at par and before they are cashed.

They should collect railway receipts and transact all other agency business for joint stock banks at special low rates instead of special high rates as at present. They should accept cash in silver coins to any extent any day. They should allow interest to banks in their various deposit accounts. They should publish information regarding their method of organisation. Their instruction books, and book of forms in use, etc., should be available from time to time at small cost. They should act as issue houses of shares in industrial companies. They should restrict their advances against Government securities, rediscounting of inland bills and landed properties, standing crops, etc., for long periods. (Not provided for in the Act.) Unless these restrictions are put upon the working of the Imperial Bank it is sure that joint stock banking in India would not develop.

Exchange Banks should furnish yearly statements of their working in India separately and they must hold Government license for working in India.

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Oral Evidence.

Chairman: Are you the agent of the Benares Bank at Muzaffarpur?—Yes.

For how many years have you been there?—For two and a half years.

And previous to that?—At Benares and Saharanpur.

You speak of some of the companies giving credit to reliable parties to push their stock in the market. Are they fertilising companies?—Not fertilising companies but people who manufacture or import cotton goods or such other things. I am speaking generally of trading companies.

Then you say that the petty *mahajans* who buy the bulk of the crop from the agriculturists take it to the nearest *gola*. How far are the *golas* from one another?—They are generally situated in towns.

Are there none on the main roads at all in the Muzaffarpur district?—There are.

Would you say there are *golas* every 15 miles?—Not exactly, it may be more or less.

Mr. Hodge : What do you mean by a pool?—Are you thinking of co-operative pools?—I have spoken very little about pools because small agriculturists want ready money and it is more convenient to them to sell the crop outright to the companies or in the *pathias*.

Chairman : Are you contemplating by pools an actual physical collection of stock in a warehouse?—That is say 20 to 50 members of the pool may be sending their produce to be stored there and when they are sold they will be distributed to all the members.

Would that not practically mean bringing the stock together in a place such as a warehouse?—Yes.

Professor Batheja : Why should it be necessary to bring the quota of a large number of members together to a central place?—You mean to say that they should only inform them that they have got so much indigo or something to be sold and it need not be stored in one godown.

Is it not possible to supply the order from the place where the thing is produced without bringing it to the central place?—Yes, it is possible.

Chairman : I take it you think it would be impracticable to organise pools among the small agriculturists?—I think so.

Mr. Hodge : Do you mean by a pool a combination of interests?—Yes, in which a certain price is fixed for a certain standard commodity and when sold everybody gets a proportionate profit.

How do you suggest it should be organised?—I have found from people that these pools are not very convenient to have because they have sometimes to wait for a year or so before they get something out of the stock.

Professor Batheja : Have you actual experience of the pools?—No. I learnt it from my constituents.

In respect of what commodities have pools been organised?—Indigo and sugarcane.

Are you referring to European planters?—Both to Europeans and Indians.

Mr. Hodge : I take it there is an indigo pool and a similar pool for sugarcane?—In Muzaffarpur people think that it is more convenient to sell sugarcane to Begg Sutherland & Co., the Japaha Sugar Mills and the Sugar Mills of Siwan. They do not bother about pools.

Chairman : Is there a general agreement as to the price to be paid for sugarcane?—Yes. Planters do not generally compete on the price of the sugarcane.

Mr. Hodge : Do you consider that a combination of that kind is really beneficial to the agriculturists?—To the big agriculturists or landlords, who can afford to wait for better prices.

Professor Batheja : Has the working of a pool succeeded in putting up the prices of the commodity?—Pools are generally used only for indigo produce in Muzaffarpur and indigo is now being less and less manufactured every year so that these pools do not play an important part with the landlords there. They sell sugarcane also as standing crop to big merchants. Sometimes there are forward sales and purchases over which low interest is paid.

Chairman : I take it that the indigo pool is mainly devised to fix the selling price whereas the organisation of sugar industry is to fix the buying price?—Yes.

Professor Batheja : Are not sugar planters sugarcane buyers also in order to resell it to the factory?—No.

Mr. Hodge : Do the factories buy largely direct from the *raiyats*?—Yes, from the cultivators.

Chairman : In Muzaffarpur do they employ the planter or the big zamindars as agents?—It is generally the big zamindar who produces sugarcane.

Professor Batheja : From what side does the combination come, from the factory people or from the planters?—There is no combination. Prices are generally the same.

Chairman : Then you say that the disposal of suits on negotiable instruments should be expedited. What do you think is the cause of delay in such suits? Is it shortage of judicial staff or any other cause?—It is due to the procedure which is lengthy.

Is there the general complaint about the slowness of the civil procedure?—Yes.

Professor Batheja : Is there any special procedure for deciding cases under the Negotiable Instruments Act in port towns?—I think I have read somewhere that if a suit is filed within six months the defendant is not allowed to defend.

How much time does it take to dispose of such cases in port towns?—I have no idea, but there is some summary trial procedure if the suit is brought within six months. Or where such cases are very common special courts presided by judges specially versed in these matters may be appointed.

Mr. Hodge : Is there any class of transaction which the Benares Bank puts through for which you would like to have same kind of procedure?—All transactions are like that. We do not advance money on landed property but on *pro-notes* and *hundis* as overdrafts.

Professor Batheja : Would you like this expeditious procedure, instead of the ordinary provisions of the Civil Procedure Code, to be extended to the *mufassal*?—Yes.

Would not this privilege be abused by the bank?—No. It may or may not be abused by other bankers.

In what respect will it be abused?—Sometimes it happens that people give a hand-note say for Rs. 200 and actually get Rs. 100. Sometimes a blank or completed hand-note is signed as a deterrent by way of security for good behaviour without any consideration at all. But such practices prevail also at places where the summary procedure is in vogue.

Chairman : If a man has actually signed a hand-note for Rs. 200, even if he only gets Rs. 100, is there not some other consideration besides that Rs. 100?—It is only that he is not getting money so he has to sign for Rs. 200 for Rs. 100.

Professor Batheja : Is a hand-note a negotiable instrument?—Yes, in the form which we use.

Is a *hundi* a negotiable instrument?—Yes.

Is it your experience that courts very seldom allow interest during the pendency of the suit?—Yes.

Mr. Hodge : Is it possible to expedite the present procedure?—Yes. There should be some rules of evidence and some provision that if a suit has been decided against a person other persons may be precluded from bringing counter cases unless proper security is given or the parties to the previous suit are proved to have been in collusion.

Professor Batheja : Do you think it desirable that you should curtail the rights of other people?—I think the procedure in this province is different from what is in the United Provinces.

Mr. Hodge : How far does this question of delay or expedition lie in the discretion of the courts?—The courts can exercise powers if they wish to do so.

Professor Batheja : Do you propose any amendment to the Evidence Act?—I am not prepared on that point.

Chairman : You speak of the value of land being from Rs. 100 to Rs. 500 per bigha. Can you tell us what the size of the bigha in Muzaffarpur is in comparison with acres?—1 square laggi = 1 dhur; 20 square laggi = 1 square cottah; 20 cottahs = 1 bigha. The length of laggi differs in various places. In Muzaffarpur 22 cottahs equal one acre.

You contemplate agricultural banks in big centres with branches in the interior of the district. Is that for short-term loans or for long-term loans?—For short-term loans extending to two or three crops.

Professor Batheja : On what lines would you organise such agricultural banks?—The agriculturist will surely receive a great help from the agricultural banks who will also be able to carry on their business.

Do you see any prospect of the joint stock banks taking up that business?—No. Co-operative banks may be able to do that but people shirk to go to co-operative banks for loans.

Why?—There is joint responsibility and when persons who borrow money clear away their own dues they are held responsible for the dues of others.

Chairman : Do you think that joint responsibility is a definite obstacle in the way of the expansion of the co-operative banks?—Yes.

Mr. Hodge : Do you consider it is a good thing for the village agriculturist to have joint responsibility?—Joint responsibility is good for the bank and not for the agriculturist.

Does he not get a lower rate of interest?—The co-operative bank advance money to them at 15 per cent. and they can raise money elsewhere at 24 per cent., so there is a saving of 9 per cent. only whereas they have other advantages by borrowing from others who lend them money for marriages, deaths, etc., and in many cases part amount of interest is remitted.

Can the village agriculturist get credit otherwise?—Yes, from his own landlords.

By paying a very high rate of interest?—No. 24 per cent.

Professor Batheja : You admit that co-operative banks are performing an important function, but you think that agricultural banks are required to supplement their services?—Co-operative banks by extending their business take up that work also and benefit the agriculturist, but there would be other difficulties for the banks.

Mr. Hodge : Are you in favour of land mortgage banks for larger landlords?—Again the question of realisation from the landlords would come in. If they do not pay in time or do not pay at all, it would be very inconvenient both to the agriculturist landlords and the mortgage banks who will have to realise their dues from the former by suit.

Having regard to the difficulties, the landlord has got land which is a very good asset. Would you favour land mortgage banks for a particular class?—Banks get best security in lands. It is only the question of realising money if the mortgagor does not pay.

Do you think land mortgage banks should be affiliated to central co-operative banks?—They must have some means of getting long-term deposits or long-term debentures.

Would you suggest it should be provided by some other machinery than the co-operative machinery?—If the co-operative bank supplies credit to small agriculturist they can also supply to landlords. But they must have long-term deposits otherwise they cannot make these investments.

Chairman : The land mortgage bank would not deal in short-term business at all?—No, that would not be their main business.

There would have to be attached to the land mortgage bank something of the nature of an estate management branch?—Yes. Co-operative central banks are allowed some facilities in regard to awards against their debtors. If any such facility is allowed to land mortgage banks they must be successful.

Even in spite of the fact that they would occasionally have to take over the land themselves?—Yes.

You say that searching of records is an expensive matter. Have you any experience as agent of searching records?—Yes. I think there is always some malpractice. Unless we pay something we do not get all the papers and in the usual course it would take a very long time to get the information.

In what form do you get information from the registration offices?—They allow us to inspect the records and if we are satisfied with the inspection we may leave it there, or get extract copies.

You recommend the entry of all mortgages and sales in the record-of-rights. Do you not think it would be rather unduly expensive to do that for every parcel of land in the country?—It should not be very expensive. Sales and mortgages of *Math* should be recorded on Register D and those of *Kasht* on record-of-rights. Necessary fees for the purpose should be taken at the time of registration and this business should not be left to the parties.

Is it not enough to have the index in the registration office complete?—I do not think so, if that is done looking of the indexes in most cases would be unnecessary.

You say that the co-operative banks have a special procedure by which they can get an award. Do you think that the co-operative banks compete unfairly with you as a result of that?—Not much.

Is it not a fact that they do not deal with the same kind of business as you do?—It does not affect our business even if they deal with the same kind of business. The competition, if any, is healthy.

Is it not your experience that the co-operative central banks have been reducing their rate of interest on deposits, so that now the competition is not so keen as it was?—Yes.

Professor Batheja: Would you suggest any practical method for reducing competition between joint stock banks and co-operative banks?—There is not much competition.

Who should regulate the rate of interest? The central bank or the joint stock bank?—We cannot allow higher rates than 6 per cent. That would not pay us. Hence we should regulate rate of interest.

How do you increase or decrease your rate of interest?—We fix a rate of interest that would pay us. We do not very often decrease or increase our rate of interest.

Do the other joint stock banks generally do so?—Very rarely.

Would you expect the co-operative bank to follow your rate of interest?—Yes. We invest at 12 to 9 per cent., sometimes at lower rates. Central banks invest their money at 12 per cent.

Chairman: On the other hand they have to keep a fairly large establishment for supervising the institutions through which they invest?—Their establishment is not more costly than ours and their rate of pay is much lower than ours.

Professor Batheja : Is it a fact that the business is comparatively small?—The staff of co-operative banks are small. They can reduce their rate of interest and even then they would get deposits as they have good credit generally.

Mr. Hodge : You state that the minimum rate at which the central banks lend out is generally 12 per cent. In some cases I think it is 10 or 11 per cent.?—In exceptional cases they may take a lower rate of interest. Their general rate is 12 and ours is 9 per cent.

Is it not a fact that their rate is steadily falling?—Ours is not falling. The co-operative banks are contemplating to reduce their investment rates also.

What is the rate on deposits in the Muzaffarpur central bank?—They started from 8 per cent. Now it is 6 per cent. and sometimes less.

Would that approximate very much to your own rates now?—Yes.

Chairman : You seem to fear that if the joint stock banks open fresh branches the Imperial Bank might follow them there. Is there any recent indication of the Imperial Bank pursuing such a policy?—The Imperial Bank had a contract with Government to open certain branches at certain places and have opened branches there and they can open fresh branches if they want to do so. The joint stock banks only open branches in good business towns.

Professor Batheja : That is not the experience in Bihar and Orissa?—In Bihar and Orissa the Imperial Bank have branches in all the important towns.

Chairman : Is there any reasonable expectation of the Imperial Bank opening further branches say in the next ten years?—I have no idea.

I gather that the opening of branches in Muzaffarpur, Bhagalpur and Cuttack and one or two other places was done under pressure from the Government of India?—They had to open branches under contract with Government. They will extend their business in the same way. They have already opened the number of branches the Government wanted them to do and they will open branches where they expect to get business or where the Government of India want them to open branches.

Mr. Hodge : You suggest that your most formidable rival is the Imperial Bank?—Not exactly that. Their rate on deposits is much lower than ours. We lose very little by deposits with the Imperial Bank. They compete to a certain extent in fixed deposits.

You suggest that joint stock banks have to content themselves with second or third class securities because of the fact that the Imperial Bank gets all the first class security. Is that not serious competition?—In the matter of investment we are very little handicapped by the Imperial Bank, as they restrict their advance against certain securities only, and in deposit accounts, people have greater facility to remit money from one place to another with the Imperial Bank.

Chairman : So far from urging the Imperial Bank to take up a bolder course in the matter of developing industries, would you not be

inclined to restrict their activities in the matter of placing their investments even more closely?—I would rather extend their business in supplying funds to big industries.

That would not be competition with you?—No.

Professor Batheja : Do you think a commercial bank is qualified to perform the function of an industrial bank?—Yes, they can really perform that function.

Do you not think that to finance industry long-term loans are necessary?—Yes, some of our investments must be long-term loans.

There is not much difference between industrial and commercial banks except their term of deposits?—But they have got the working capital and paid up capital to invest. Even while accepting short-term deposits they can easily invest against long-term deposits to a certain extent.

Would you like the Imperial Bank to lock up its funds in industrial enterprise if it is to act as a banker's bank?—Yes, if they have the funds.

Are there central banks in other parts of the world, which invest on these lines?—I have not got any idea.

Chairman : Would you like the Imperial Bank to occupy the position of a banker's bank more than it does at present?—If it actually takes up the position of a banker's bank, it would be very convenient to other banks.

If it were occupying the position of a banker's bank, do you think it would be wise for it also to take up this industrial bank business?—If it is in a position it may take it up.

Are you in favour of the Imperial Bank also taking up the function of financing long-term agricultural loans?—I would like them to do so instead of investing money on short-terms in competition with other banks.

Professor Batheja : Are you in favour of the Imperial Bank financing the co-operative movement?—Yes.

Are you aware that the Imperial Bank had a very bad experience in Burma?—I am not aware of that.

Chairman : You say that the Imperial Bank should freely advance to joint stock banks against Government paper and inland bills discounted with them. Does it not at present advance on Government paper?—In the mufassal, it does not advance to banks against Government papers freely as overdraft.

If your bank goes to the Imperial Bank with Government paper will not the Imperial Bank accept it?—No.

Will they do so, if an ordinary customer goes to them?—Yes.

Why should they differentiate against you?—They have some circular from the head office on the subject and therefore they do not.

Is it merely a matter of investigating your title to hold such Government paper?—It is not that.

Professor Batheja : What is the reason which makes the Imperial Bank differentiate against you?—We do not know the reason but there is a circular on the point.

Mr. Hodge : What are your dealings with the Imperial Bank?—At present the special facility we get is the remitting of money from one place to another.

Is that the only facility the Imperial Bank gives you?—Yes.

Chairman : Does the Imperial Bank also refuse to rediscount a bill presented by you?—They would not advance money against such bills to us.

Is it because they are in competition with other banks, that is to say, they prefer the big inland bill to go from the holder direct to them rather than through you?—Yes. We want special facility at a time when we send these papers to the Imperial Bank to draw against these papers.

That is the facility which you wish to have but you have not at present?—We are not allowed to take money on Government paper purchased by us in reserve fund.

Professor Batheja : Can you not evade the circular of the Imperial Bank regarding advances against Government paper by the manager pledging the security with the Imperial Bank in his personal capacity?—Yes.

Have you tried to evade it?—We can, by the manager transferring it in his own name but it will be inconvenient to show that in our balance sheet.

Why should you expect that the Imperial Bank should transfer money free from place to place?—If Government keeps money with them without interest, they should give the same facility to others.

Do you think that the concession which Government gives to the Imperial Bank is more than sufficient to keep it going?—But their establishment expenses are unnecessarily high.

Do you not think that for a bank of the standing of the Imperial Bank an expensive staff will have to be employed?—The staff they employ is not so expensive, but their procedure of work is more expensive.

Is that not better accounting?—I do not think so.

Are you not anxious to study the system of accounting in the Imperial Bank in order to improve your system?—We shall only get the gist out of their methods in order to apply it to our accounts.

Are you aware that remittance is a most lucrative source of income?—Yes, which they should not have. Every day at the close of the day they transfer all their funds to Government and on the next day they retransfer it to their account.

If you make remittances free, would you not deprive the Imperial Bank of that source of income which keeps it going?—They may charge a nominal rate.

Would you like that the present rate should be reduced?—Yes, if possible.

Chairman: Is not the rate of remittance ultimately controlled by the *hundi* business rather than by the bank's rate?—The bank has a fixed rate of remittance, i.e., one anna per cent. for Rs. 10,000 or over. It remits our money at half an anna per cent.

If a man in Muzaffarpur wishes to remit Rs. 10,000 to Calcutta, can he not go to the *hundi* market?—It is open to him. But in Muzaffarpur such *hundis* are not always available.

Professor Batheja: How far would you reduce the present rate?—We would like to reduce it to such a rate that we may be able to sell you to other parties so that the exclusive business of the remittance of money may not all go to the Imperial Bank.

Chairman: How would you meet the remittance at the other end?—We will send the remittance through the Imperial Bank.

Granted that you are given that concession, would not the Imperial Bank lose the entire remittance business?—They may lose some business. Even at present we get some remittance business.

What function would you perform for the State in order to get this concession? Would it be proper for the business to be passed on to the Benares Bank, without any obligation to perform functions for the State?—If we are not able to get it free we may pay something and Government get something from us.

In what way are you prepared to serve the State generally?—I think the question is very wide.

Do you see the point of my question?—The Imperial Bank gets more benefit than it serves Government.

Why give cheaper remittance facilities to a particular joint stock bank, why not to the public at large?—The public at large is benefited by the joint stock banks.

Are you prepared to advocate giving some remittance concession to central co-operative banks?—They have got branches at many places and they do not have to pay anything to Imperial Bank to remit monies. The Imperial Bank may give the same facilities to them as to us. They allow free transfer of funds to central co-operative banks.

Professor Batheja: If the central co-operative bank also does that business would you not lose your business?—We would not care.

Mr. Hodge: You say that this is a source of profit to the Imperial Bank?—At the expense of other banks who are not in a position to compete in this respect with the Imperial Bank who are bankers to Government.

Do you think that the rate charged is out of proportion to the expense involved?—Yes.

Chairman : Your bank is audited not only at the headquarters but in all the branches as well?—Yes.

Is it audited by the same agency and by the same auditors?—Yes.

Do they audit for a different purpose for branches?—Yes.

For whom is the audit in the branches carried out?—They audit the branches for the directors and the head office for the shareholders.

When the auditors sign the audit certificate on the balance sheet of the year, do they certify that they have satisfied themselves in regard to the conduct of business in the branches?—They do certify that they have satisfied themselves from the certified returns of the branches but if we pay them a higher fee they will give a certificate for the branches as well as for the head office.

Do you think it would be desirable to have such certificates on the balance sheet?—Yes, but this is not very necessary and would be unduly expensive.

Professor Batheja : How should the Imperial Bank be compelled to restrict its advance against Government securities?—Not against Government securities but against other securities by an Act.

Should they be prohibited altogether?—They may advance on other securities through the bank.

Chairman : Suppose I happen to be a client of the Imperial Bank, would you think it is proper that my right to approach the Imperial Bank and offer Government paper against a loan should be restricted?—They are to a certain extent. You cannot get loan on any security.

But the clients of the Imperial Bank can get loans against Government paper?—The Imperial Bank advances generally on Government paper but not so easily on other securities.

Is it your point that the Imperial Bank should not deal direct with individuals?—Yes. It should deal through other banks so far as possible.

Would you force the present individual clients of the Imperial Bank to go to the joint stock banks?—Yes.

Mr. Hodge : You mean to say that the Imperial Bank should be the banker's bank?—Yes.

Babu HARIDAS, RAY Deputy Collector, Motihari.

Replies to the Questionnaire.

1. (a) and (c). From the village money-lender in grain and also in cash or from the co-operative society when a *raiya*t is a member.

(b) As far as my experience goes, loans for this purpose are rarely taken by the ordinary *raiya*t for permanent improvements; the idea being that only a solvent man who need not borrow and has capital of his need go in for permanent improvements, although a small loan can

be taken to supplement one's resources. Such loans are taken from the persons or bodies mentioned previously.

Loans for providing initial capital of agriculture are rarely thought of; although I have come across cases in which members of co-operative societies who were originally landless have borrowed money for purchasing land and cattle, but the results in such cases have almost always been disastrous for the simple reason that having obtained the money easily they paid fancy prices and the rate of interest was uneconomic for purposes of ordinary agriculture.

The rates of interest on cash loans usually charged by private money-lenders vary from 12 to $37\frac{1}{2}$ per cent. per annum. In areas where there are no co-operative societies, the rate usually hovers round $37\frac{1}{2}$ per cent., but after co-operative societies have sprung up in sufficient numbers in a locality the general rate often comes down to $18\frac{3}{4}$ per cent. People with good credit and borrowing large sums can get loans at 12 per cent. also; but the percentage of cases in which loans are given and taken at this rate is very small indeed.

Grain loans are usually given on the *derhi* ($1\frac{1}{2}$ times) system.

Cash loans are invariably given on the security of lands, the period varying from three to seven years. Where possession of the land is given to the creditor (*zarepeshgi* system) no interest is charged. The period in such cases is generally seven to nine years or *ta adai* (until repayment).

Grain loans are taken in the cultivation season and repayable at next harvest, on failure of which the interest is compounded with the principal. From small grain loans, security is not demanded generally in the beginning, but if the *raiya* falls into arrears and cannot repay for two or three successive years, a mortgage bond is insisted upon for the payment of the total accumulated debt.

From what has been said above, it will be seen that private professional money-lenders play the most important part in financing agriculture. Co-operative Banks and Societies where they exist play the part of these money-lenders for members of societies.

The Imperial and Joint Stock Banks help middlemen in securing capital for giving advances (*dadani*) to *raiya*s on the value of such standing crops as sugarcane, jute, oilseeds, etc., or in purchasing crops immediately after harvest.

The operations of companies trading in fertilisers are negligible so far as this province is concerned.

It is very difficult indeed to give a proper estimate of the amount of capital required for financing the entire body of the *raiya*s of a district or province, but fifteen to twenty times the total capital employed by the agricultural co-operative societies of the province is a rough estimate which can be hazarded.

4. If the main purpose of Land Mortgage Banks is to afford special facilities for giving out long-term loans, I should like to submit, with

apologies for hazarding such an opinion, that the *raiylats* of the province do not generally deserve to be trusted with loans for very long terms. Such a system is likely to make him less alert even than what he is at present. If a man takes a loan for five years, he probably would never seriously think that it need be repaid in less than ten years and he will make efforts accordingly; if you give him a term of ten years; he will make just the efforts necessary for repaying it in 15 or 20 years; and so on. He has not yet acquired the habit of sticking to his promise.

My humble opinion is that the financing of agriculturists can and should be left to co-operative societies who should give five years' loans for purposes for which long-term loans are needed, realise each year as much as the member can repay out of his legitimate profits and without borrowing from private money-lenders as he is at times forced to do, and at the end of the term, to revise his *kists* and go on in the same way, making a further revision if necessary at the end of ten years until the original debt is repaid.

A system of giving out loans without a system of vigilance possible to be exercised by co-operative societies will do much more evil than good.

I also think that the co-operative society cannot under present circumstances lend money at rates which can be called economic for purposes of agriculture. If the society could lend money at 7 to 8 per cent. and could employ sufficient staff to see that the loan is not misapplied and to realise the society's dues just at the proper time, a great deal will have been done.

I do not think that the co-operative society can achieve wonders. People criticise societies on being money-lending institutions. If this business can be done properly, and if the private money-lender can be gradually eliminated, a great deal will have been accomplished.

Co-operative effort in my humble opinion ought to be restricted to two principal objects, viz., (1) money-lending on proper lines, and (2) arranging for co-operative sale of produce. If in addition it gives facilities to the agriculturist and other departments who can be expected to look after their own business better than the Co-operative Department can hope to do, all that is practically possible will be done. I do not believe that the co-operative society can supplant the activities of the departments of Education, Health, Sanitation and Agriculture but can give facilities to all of them.

To attempt to accomplish matters which properly belong to other departments would mean that such work would be indifferently done while its own legitimate business of financing agriculture and arranging for the sale of agricultural produce are likely to be neglected. Let the Co-operative Department restrict itself to these two objects, perform these well and be given all possible facilities for performing these duties properly and well is the opinion I have acquired after mixing intimately with the *raiylat* during 11 years of settlement work and nine years' work in the co-operative societies.

Oral Evidence.

Chairman : You are at present a Deputy Collector in Motihari?—Yes.

And till recently you were employed in the Co-operative Department?—Yes, I was an Assistant Registrar of Co-operative Societies from 1918 to 1926 in Orissa, Bhagalpur and Patna divisions.

Then your experience of the co-operative movement covers the greater part of the Province?—Yes. I have also had Settlement experience in Chota Nagpur.

You say that members of co-operative societies borrow money for purchasing land and cattle but the results of such borrowings have been usually disastrous. Have you come across many cases of that nature?—Cases as such are rare, but I have known of at least one society in Monghyr district where people borrowed large sums of money for purchasing lands at high prices. The result was that after a few years when these members who had taken loans found it unable to pay interest, the society had ultimately to be closed.

Mr. Hodge : Would you put it as due to ignorance on the part of the cultivators?—Of course it is partly due to ignorance, but I have known of men who borrow Rs. 1,000 and pay interest to the co-operative society an interest of Rs. 150 per annum on that amount, but who are actually unable to make up even the interest from the yield of the land purchased with that sum, with the result that in the long run the society sells his land to realise its dues at least in part. In that way the cultivators are ruined.

You think that if the co-operative central banks went in largely for advancing money to the cultivators for the purchase of land they would have to do so with very great caution?—Yes, and the present rate of interest must also be lowered.

What rate of interest would you consider to be economic?—It is difficult to say but I think that it should not be more than 7 or 8 per cent.

Would you definitely oppose the extension of long-term credit to the *raiyyat* unless the existing rates of interest are lowered?—Yes, and I would advocate the establishment of an organisation, such as that of the co-operative bank, which advances such a loan, to see that the loan is properly utilised by the *raiyyat*.

If you extended this loan up to fifteen years you consider that 9 per cent. would be the highest rate of interest that the borrowing *raiyyat* could pay?—Yes. Even 9 per cent. is not a small rate of interest.

Professor Batheja : What do you think the return from land in this Province is?—All that depends on circumstances and the soil. Generally, the yield is about 6 per cent., but it is possible to get a return of about 20 per cent. in some special areas where special crops are cultivated.

Are you definitely of the opinion that if an agriculturist borrows money at more than 9 per cent. interest then agriculture will not pay?—Ordinarily it will not pay after meeting all the expenses of himself and family, as well as cultivation expenses, etc.

Chairman : Is it not a fact that a considerable number of the agriculturists are already in debt and are paying something like 25 per cent. on that debt?—Yes, that is so.

If that debt were replaced by a debt from the co-operative bank at the rate of 15 per cent. interest would that not be a distinct saving to the agriculturist?—Of course, it may seem to be a relief, but if the amount borrowed bears a large proportion to the total value of the holding, then it will be difficult for him to repay the principal and interest.

Professor Batheja : If an ordinary cultivator borrows money at the rate of 15 per cent. from a co-operative society, will it pay him to do so?—A cultivator does not necessarily borrow for cultivation purposes alone. He borrows for all his necessities. If the amount of his borrowings is not large then he will be able to repay.

But if he borrows up to the maximum admissible by the rules, then it may not pay him to do so?—Generally he is allowed to borrow between 30 to 40 per cent. of the value of his assets which is the maximum permissible. I do not think it will pay him in the long run, but all depends on circumstances.

Chairman : Then up to that maximum limit it will be advantageous for the *raiyat* to borrow from the co-operative societies in order to pay off his *mahajan*?—Yes, taken in that sense.

Do you think that the pressure of interest, indirect though it is, in the case of a *zarpeshgi* loan is higher or lower than ordinary loans?—I think the rate will be generally lower, in the case of *zarpeshgi* loans.

You do not see any other possible form of organisation for releasing the small cultivator from his existing indebtedness?—I think if the operations of the co-operative societies could be extended still further it would be better.

Professor Batheja : If some other agency could be devised, apart from the existing co-operative societies, which would grant loans on a lower rate of interest, you would welcome it?—I would, provided such an agency would look after the interests of the cultivators to whom they grant loans in the same manner as co-operative societies do at present.

Do you think that every agriculturist requires looking after?—Well, most of them do.

Mr. Hodge : You would suggest that the lowering of the rate of interest would call for more effective supervision by the co-operative societies than is the case at present?—Yes.

Professor Batheja : So, you say that the *raiya*s who take loans could not be trusted to look after themselves?—Of course, that is an

unpleasant thing to say, but we must work with the material in hand to improve the lot of the *raiya*t.

Chairman : Is it your experience that the directors of the central co-operative banks take this point into consideration sufficiently?—Some do while others do not.

Professor Batheja : Which class of banks are in the majority in this Province, those who would look after the interests of their clients properly or the other class?—I am afraid the banks which are not careful are in the majority.

So the co-operative banks are not working on as sound lines as would be expected?—In the majority of cases they are trying to do their best.

Do you think the co-operative banks offer a complete solution to the problem of agricultural indebtedness?—I cannot say that, but I consider this agency the best.

Would you not supplement this by other agencies?—I would say that there should not be more than one financing agency to deal with one set of *raiya*t.

Chairman : So you are inclined to think that if there is competition between financial agencies, instead of reducing the rate of interest, it will only increase the indebtedness of the *raiya*t?—Yes, that is exactly my fear.

What practical means would you suggest of confining a borrower to one credit agency?—As the rules now stand co-operative societies are not able to finance a *raiya*t when he is in urgent need immediately, with the result that he necessarily goes to a *mahajan* to meet his demands.

Do you think that an organisation working according to published rules will ever be able to meet an urgent case like the one you have stated just now?—Society must conform to the rules and then it will take time to decide individual cases but rules might suitably be amended to meet such urgent needs.

Have you ever come across primary societies who could be entrusted with the work of distributing such urgent loans?—There are some good primary societies which could be so entrusted.

Professor Batheja : What would be the percentage of such societies to all the societies in this Province?—I should say it is only about 5 or 10 per cent. of the total number of primary societies.

Mr. Hodge.—You mean all the "A" class societies?—Yes, they could be entrusted.

Professor Batheja : Granting that the *mahajan* performs a necessary function in the village economics would you try to improve his system of business by any means?—Well, if he could improve his business it would be very good indeed.

Suppose the business of *mahajans* were controlled and supervised in the same way as co-operative societies are controlled at present.

would it be possible to improve it?—My experience is mainly restricted to the zamindari areas of Bihar and Orissa and not to any *raiyatwari* areas. I think any system of attempting to control the *mahajans* would break down on purely administrative grounds owing to the lack of any widespread agency under official control.

Is it necessary to control all the *mahajans* in order to improve the system?—I do think so.

Is there an organisation which supervises all the co-operative societies?—Yes, there are inspecting clerks who inspect all these societies. At least once in two months every society is visited.

Is it not a fact that the co-operative societies are confined to a small number of villages in the Province?—That is unfortunately true.

Supposing a suitable Government, or bank organisation, could set up as many licensed *mahajans* as there are co-operative societies would it improve the business of the *mahajans*?—I cannot say.

Chairman : Did you ever find difficulty in organising co-operative societies because people objected to the principle of joint unlimited liability?—For people who require loans, it does not worry them at all. They always come. It is only difficult to bring in men with good credit into the movement.

Mr. Hodge : Would you suggest that people of different economic status do not like to mix together?—That is so.

So, if you try to bring together people of equal economic status then it will be possible to meet the objection to unlimited liability and form a society?—Yes, that is possible.

Professor Batheja : Supposing an agricultural bank were started to finance certain classes of money-lenders, who would undertake to have their accounts inspected and their operations controlled in a particular manner, would it then be possible to control and improve the working of the money-lenders?—It would be possible to control those particular *mahajans*.

And supposing those particular *mahajans* received special facilities at lower rates of interest would they not in course of time drive the other set of unlicensed *mahajans* out of business?—Yes, it might be possible if special facilities of the kind are offered to one set of *mahajans*.

Chairman : Would it operate this way that you would gradually have an increasing number of people who would be prepared to accept the terms of control?—Certainly so.

Would there be a danger of the system breaking down ultimately because you could not create the agency to control these *mahajans*?—That is exactly what my submission is.

Professor Batheja : Would not rapid expansion of the co-operative movement be faced with the same danger?—I do not think so.

Chairman : The idea of the co-operative movement is that the people who are members themselves control the movement?—That is so.

Professor Batheja : Do you think that the village co-operative society manages its own affairs?—If there are thirty members in a society at least five or ten of them will look after the work.

Supposing in the case of registered *mahajans* the control could be supplemented by providing that it is done in the interest of the *mahajan* himself, would not the danger anticipated by the Chairman be reduced to some extent?—Nothing succeeds like success. I do not quite understand the organisation you suggest.

Chairman : You have gathered that it is in contemplation by the Committee to recommend a system of licensed *mahajans*. Do you anticipate any great difficulty in the matter of supervising licensed *mahajans* in that way?—It will be difficult to find agencies suitable for supervising such a large number of *mahajans*.

Do you anticipate also any difficulty to create a satisfactory selecting agency?—Yes, the proper selection of such men would be difficult.

Do you anticipate that a considerable number of people would come forward to take up the job of licensed *mahajans*?—Yes, certainly every one would like to become a licensed *mahajan* in such a case. I think there would be many applications.

Would it not be possible to select from such a wide field suitable people who could be asked to work?—It is possible; but it is also possible that people so selected may act according to the rules framed. I think the *mahajan* will almost always charge at least 5 per cent. more than he is permitted to. Of course, this will not be found on paper and the *raiyyat*, who is always at a disadvantage, will be forced to pay the extra rate privately to the *mahajan*.

Is there not a pretty large class of *raiyyats* who borrow comparatively small sums for just one season and is not really in very great need in ordinary circumstances?—Yes.

Has that class been already attracted to the co-operative societies?—Such men are both in and outside it. In most cases people will require grain loans more than money loans.

Professor Batheja : If a man gets a money loan can he not convert it into grain?—Of course, he can, but in most cases he would prefer to have a grain loan rather than money.

Chairman : Have you made a deep study of the fluctuations between the harvest price and the highest price of paddy in the year?—I cannot say I have made a deep study of the question, but I can say that there is always a great deal of difference.

Would you be surprised to hear that after examining the gazette prices of the five towns at the divisional headquarters the average difference between the harvest price and the highest price is as low as 5 per cent. in one case, and is never more than 15 per cent.?—I would be surprised.

Is it not a fact that in certain years the harvest price is higher than the price say in June?—That would be an extraordinary year.

What two months of the year ought we to take for comparing prices for the purpose?—September and January would be the months.

You think June and January might be misleading. Is not most of the paddy borrowing done in June?—It begins in June and goes on till September.

Mr. Hodge : You have heard the case stated for the establishment of a system of licensed money-lenders. Do you think the need could be met by an extension of the co-operative movement and by speeding up the machinery for advancing loans?—Yes, that is my view.

Chairman : If a scheme could be devised of starting an agricultural bank operating through licensed *mahajans*, do you think it would be a useful supplement to the co-operative movement, assuming that it could lower the rate of interest?—Yes, I think it would be, provided these registered *mahajans* looked after the interests of the *raiya*s properly, and particularly by seeing that the loans were not misused.

Professor Batheja : What is the percentage of the men who would require to be supervised?—About 75 per cent. of the people who require loans would need supervision.

Chairman : You consider that the co-operative effort should be restricted to money-lending and organisation of co-operative sale societies?—Yes, for the present.

Have you had any experience of co-operative sale societies?—I have experience of the working of sale societies in Bihar. I myself worked one, and it proved a great success. It was a sale society dealing in potatoes.

Is that still in good trim?—I cannot say. I have no subsequent knowledge of it. I have also tried with small societies and obtained useful results. Some proved a success, others failed.

Professor Batheja : Have all these successes survived?—I cannot say that.

Would it surprise you to hear that those people who are now associated with the movement say that there is no instance of a successful sale society in this Province?—I do not know about that, but my own experience is that it has proved a success.

Chairman : Do you think that the amount of work that you have had to put in to make it a success is altogether out of proportion to the importance of its success?—I cannot say that much skill or labour is required to make it a success. At present when the *raiya* gets only Rs. 20 for his produce my submission is why not enable him to get Rs. 30 by selling his produce through the co-operative sale society.

Would you extend the sale societies to the majority of agricultural products in this Province?—I would make experiments with paddy to begin with.

Are the *raiya*s generally satisfied with the marketing methods of their paddy?—They have no other remedy. If the *raiya*s hold up their stocks to avail of a better opportunity then they might get a better price.

So you say that the *raiya*t at present is not sufficiently intelligent or provident to pick up the best periods of the year for selling his produce?—It is not all a question of intelligence or providence but it is mainly a question of necessity with him.

Then your remedy is that co-operative sale societies should be formed which would advance to the *raiya*s the money they require for the time being and then sell their produce at the best possible moment?—Yes, that is exactly what I want.

Supposing the market turns adverse instead of becoming favourable, then the sale societies will collapse, will they not?—My opinion is that only once or twice in a period of ten years that these societies might suffer some loss; but, on the whole, it will be a flourishing business. Strict rules should be framed for the working of these sale societies.

Would it not be difficult to enforce such rules on the managers of these sale societies?—I think it might be workable on the whole.

Have not such rules been tried on an experimental basis till now?—Not sufficiently.

Professor Batheja : Do you know that an experiment was made in Fatwah?—Yes, that was worked on the *gola* basis, and I had to liquidate that business.

Granting as you say that about 75 per cent. of the *raiya*s require tutelege, if the interest rate is reduced would not the system of licensed *mahajans* work well?—All depends on supervision and control of these *mahajans*.

Who will supervise and control these co-operative *golas*? Can the Assistant Registrars do it?—Yes, they can do it.

Have these Assistant Registrars got the necessary business capacity regarding marketing, etc.?—They need not have special knowledge of these things, but it is enough if they simply watch the situation.

Chairman : Do you not think that potatoes are a very special kind of crop in which possibly success might be obtained, whereas with the staple crop of the Province (paddy) we have a very different proposition?—That is true, but I do not see any reason why these *golas* or sale societies should fail if properly looked after.

What profits were realised by the working of the potato sale society?—We made about Rs. 8,000 to Rs. 10,000 in a year. I did work for this society besides attending to my other duties.

Professor Batheja : Do you not think that even a single instance of loss in these sale societies will scare away other people?—That is why we would go on very cautiously.

Do you think that an ordinary Assistant Registrar will have the same incentive to manage a concern as a *bepari*?—But a *bepari*'s private interest is in his own enterprise.

Chairman : Do you think that the *bepari* ordinarily exploits the *raiya*t seriously in dealing with big commodities?—Not in all business, but in the potato business he does.

Why not leave those *beparis* who do and live on honest business alone? Why do you want to replace them by co-operative societies?—My only answer is why should not the *raiya*t get Rs. 10 more for his produce which would otherwise go into the hands of the *beparis*.

Mr. Hodge : Could you give us an idea how many of these co-operative sale societies have failed?—There have been more failures than successes, unfortunately.

Would you agree that if these sale societies are to be started they should be worked on a large scale to make them paying concerns?—I agree, but I would say that we should begin these sale societies on a small scale working it up very cautiously and then gradually increasing the business when they have begun to thrive well.

Is there any serious lack of business capacity in the co-operative societies?—I do not think there is any.

Do you think that the business capacity needed for sale societies can be supplied through the co-operative agency as we have it now?—I think so.

Do you think, for example, that the type of man recruited for the office of an Assistant Registrar would have the necessary business mentality and training for administering a large sale society?—Why should he not?

It is suggested that Government should be asked to help in the maintenance of these societies in what way?—I would not ask for Government support in the beginning, but when the business works up well we can ask for Government support to increase the business and I am sure it will be given. समयानुसार

In spite of all the difficulties contemplated and failures experienced you still think the starting of co-operative sale societies is worth trying?—I think so.

Professor Batheja : Do you think that the co-operative central banks should confine themselves only to money-lending and sale societies?—That should be their principal functions.

Do you think an unnecessary amount of money is spent in side-shows like starting schools, promoting sanitation, etc.?—I do not say much is being spent now, but I would say that these duties do not necessarily form part of the work of the co-operative movement.

Did you not say that the *raiya*ts should be properly looked after and educated in the performance of their duties, etc.?—I did say that, but I need not do that myself. I can ask the health officer or the educational officer in charge to look specially into the needs of the *raiya*ts.

Saturday, December 7, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA. | Mr. HODGE.

Babu RAM PRASAD DUBEY, Manager, Central Co-operative Union, Ltd., and Government Grain Golas, Deoghar.

Replies to the Questionnaire.

PART I.—AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

Question 1.—(a) For expenses during cultivation.—Agriculturists take loans from local *mahajans* or co-operative societies on the following system :—

Agriculturists execute ordinary bonds, handnotes, besides book debts for cash or paddy loans on 25 to 81 per cent. interest per annum from *mahajans* for bullocks, seeds, transplantation purposes. They generally prefer paddy loan than cash loans for seeds and transplantation expenses. Cash loans are required for purchase of bullocks, etc. Village *mahajans* generally cultivate borrowers' lands and get half of the produce for agricultural expenses and from the other half deduct their dues with stipulated interest. As paddy is the main crop all the loans are generally repayable in January with full interest at 25 per cent. in cash or 50 per cent. in paddy per year irrespective of number of months. If the interest is higher, e.g., 1 anna per rupee or so, they are charged on number of months.

(b) and (c) *For capital and permanent improvement.*—*Raiyati* holdings and *Ghatwali* tenures are inalienable in this district. Only *mulraiya*, *lakhraj*, *mukarrari* and zamindari rights are saleable. Some *mahajans* get thumb impressions on blank sheet of paper from borrowers and utilise that in various ways as rent receipts, bonds for higher amounts, etc., if they wish to play foul with them. Repayments are made by borrowers often without endorsement on the back of the document. Interests are compounded in fresh bonds. Borrowers and creditors play hide and seek at the time of repayment and finance respectively and borrowers are required to give *begari* labour in

agriculture season. In famine or years of scarcity Government grants agricultural loans. There is no branch of any joint stock bank here. There are only 115 rural co-operative societies in this subdivision. There are professional and petty money-lenders in town as well as in villages but they are insufficient to meet the demands partly for strict laws of the district. Jogis and Kabulis of foreign districts advance petty loans and winter cloths. I think Rs. 400 is the average required capital per village in this subdivision, as the agriculturists are not so heavily indebted in this district like those of other civil districts where lands are saleable and mortgageable.

The present system is defective as follows :—

(1) Village *mahajans'* capital are not steady and serviceable specially in years of scarcity. They often cannot meet the demands properly and at all times. In a good year they invest all their surpluses while in a bad year they draw in their investments for their own use.

(2) Borrowers are not helped to better their conditions as with their betterment *mahajans* fear their investment will cease.

(3) *Mahajans* do not press for repayment to those borrowers who are solvent and with foul intentions behind rather encourage indebtedness if the borrowers have saleable properties.

(4) Few sons of creditors take trouble to learn business and economy beforehand and so they cannot manage transaction properly with borrowers after their father's death.

(5) Creditors of these sides have no organisation of their own nor any idea of banking. They do not know how or where to invest their surplus or keep apart some reserve for emergencies, for safely conducting their business.

(6) The special law of Santal Parganas is a boon and a great protection for the borrowers but at the same time is a curse for the needy illiterates in various ways as noted above, specially where there is only one creditor with foul motives, with occupancy rights law behind them.

(7) Procedures of distribution and realisation of Government or co-operative loans are, to my mind, defective and should be remedied according to local necessities and honesty as they do not meet all sorts of individual demands promptly. Some of the defects of co-operative banks are noted below :—

(a) Present procedure of granting loans are defective and dilatory for unnecessary procedures. There should be two sorts of loans as follows :—

(i) Cash credit account for current loans repayable within a year or two. Generally three-fourths should be allowed for ordinary expenses and one-fourth of the limit fixed on special recommendation for emergent purposes.

(ii) Loans on mortgage or special personal security for special purposes only repayable in 3 to 20 years.

- (b) Branch banks should be opened for distant societies at convenient places near (thana or so) to receive and disburse money on behalf of, and under authority of the Central Bank.
- (c) Power for issuing distress warrants should be given to local authorities or to Chairman, Central ^{Bank} Union, to attach standing crops up to half of produce of the members.
- (d) Borrowers not to be directors of the Board.
- (e) Co-operative employees should furnish security and should have greater powers and responsibilities.
- (f) The Subdivisional Officer should invariably be *ex-officio* Chairman with certain powers.
- (g) Central Bank should have legal powers to enforce its decision on affiliated societies, to suspend, or expel or prosecute any office-bearer of any affiliated society for embezzlement or misappropriation.

Suggestion.—There is no co-ordination among the various credit agencies including Government at present. I think there are ample scope of improvement in this direction. *Mahajans* may be asked to keep accounts in proper and prescribed forms liable to annual audit by Government. They should have license for limited areas to transact according to their funds and should have some reserve invested in the local bank for emergencies, etc. Government should control their activities, check fraud, help in collection and protect by-laws, etc.

Question 2.—As soon as paddy and other crops are harvested they are taken to local *hâts* and sold to middlemen who sell them again to local *goladars* at towns. Rates are controlled by the *goladars'* committee (and according to foreign demand) at towns (Deoghar and Madhupur). Again these sold produces are purchased by the agriculturists through middlemen. Thus generally the agriculturists sell at low rates and repurchase at higher rates when necessary due to cart hires and profits of *goladars* and middlemen. This is due to various sorts of demands, e.g., rent, *mahajan's* due, cloth price, etc., which the agriculturists are to meet from their only paddy produce as there are practically no home industries or any other sort of other income in villages, due to mills, etc. They cannot grow sugarcane as before for foreign market competition. In my opinion in every society or centre arrangements may be easily made to hold such produce in lieu of their loans and on mortgage system advance its members for meeting rent and other demands till a favourable market value be received at the risk of members who can dispose of their goods whenever they like. Moreover, if possible, arrangements may be made by Government or society to sell those crops and purchase their requisites at wholesale and suitable market rates. *Golas* may be opened in suitable centres to purchase and sell or advance on crop mortgage. Agriculturists willing to mortgage their produce to meet urgent demands may be advanced up to three-fourths of the market value on interest and they should have

option either to take back or sell on repayment of advance with interests and *arhat*, etc. Similarly purchasers or shopkeepers may get similar advance on mortgaging their purchased goods. If this be done the excess or less produce will be only exported or imported according to demand. At present there is no bank or banker here to deal with, purchase, sell or mortgage such produce for the *raiyat's* benefit. There are paddy lending societies and Government grain *golas* in various centres who occasionally purchase or sell paddy to meet deficiency or excess of loan requirement of the agriculturists respectively. Merchants and dealers are entirely controlling the market through middlemen as noted above, and thus keep sufficient margin as their profits. For want of a bank here the public including traders, etc., feel difficulty to cash cheques or *hundis*. They who have shops at Calcutta use *hundis* for internal remittance if required for their own convenience only and very rarely.

Local traders of cloth, etc., who purchase their goods at Calcutta feel inconvenience in remittance of their prices which they generally take to Ranigunj for *hundis* or to Calcutta.

Question 3.—*Raiyati* lands are not saleable or in any way alienable in this district. They are only liable to eviction for illegal alienation through non-payment of rent. Only *mukarrari*, *mulraiya* and zamindari rights are saleable and their present values are as follows:—

Paddy-growing land—Rs. 200 to Rs. 400 per acre according to classifications and demands.

Bhadai-growing land—Rs. 50 to Rs. 100 per acre according to classifications and demands.

Question 4.—There are legal impediments to mortgage of *raiyati* lands and *ghatwali* tenures but there are no impediments for mortgage of *mukarrari*, *lakhraj*, *mulraiya* and zamindari lands. There is no land mortgage bank, or agricultural bank, or any other bank for the provision of long-term loans in this subdivision. Only one land mortgage bank at Deoghar for saleable properties—partly on the co-operative lines (borrowers not to be directors)—under Government control and supervision with powers to appoint receiver in mortgaged immoveables, to seize surplus like *ghatwali* surplus attachments and having penal by-laws and sufficient protection from civil courts, will do for saleable rights.

Question 5.—(a) For debts required for mortgage of saleable right of *basouri lakhraj* and other various rights, I have no exact idea but roughly taking into account the assets of such existing *mahajans*, I think not less than Rs. 5,00,000 are required as capital.

For general and ordinary current debts without a specific pledge, I think at least Rs. 400 and 50 maunds of paddy average per village. Rs. 70,097 has been invested by the Central Bank in 115 rural societies. There are nearly 15,000 maunds of paddy in Government grain *golas*. Excluding non-resident and solvent villages, say 1,752, there remain

1,000 villages in this subdivision. Therefore 1,000 villages \times Rs. 400 = Rs. 4,00,000 in cash and at 50 maunds = 50,000 maunds of paddy is my rough estimate for the whole subdivision.

I have enquired about the existing indebtedness of two villages having co-operative societies therein of all resident members and non-members of the villages whose results have already been submitted through the Registrar, Co-operative Societies. Their enquiry results are noted below:—

Names of Societies,	Pahridih amount,		Jagatpur Donia amount.	
	Rs.	Per cent.	Rs.	Per cent.
Proportion of debts incurred for—				
(a) Repayment of earlier debts ...	70	7	255	18
(b) Marriage and other social occasions.	126	12	Nil	...
(c) Famine and other distress ...	Nil	..	Nil	...
(d) Payment of land revenue ...	Nil	...	Nil	...
(e) Growth of debts by compound interest, interest having been paid.	Nil	...	Nil	...
(f) Seed and manure ...	Nil	...	Nil	...
(g) Improved agricultural implements.	Nil	...	Nil.	...
(h) Sinking of wells and agricultural improvement.	Nil	...	90	7
(i) Agricultural cost and purchase of bullocks.	816	79	747	53
(j) Litigation ...	24	2	Nil	...
(k) Punji for petty trades ...	Nil	...	316	22
Total ...	1,036	100	1,408	100

These debts are of co-operative societies and professional money-lenders :—

	Rs.	Rs.
(a) Co-operative societies ...	504	861
(b) Village mahajans ...	532	547
Total ...	1,036	1,408

Mahajans charge 25 per cent. on cash lendings and 50 per cent. to 100 per cent. on paddy lendings per annum irrespective of number of months. Small *mahajans* charge up to one anna per rupee per month in addition to one anna per rupee as *getkholai* at the time of lending. Some *mahajans* get their handnotes written 50 per cent. in excess of actual loans granted so that borrowers do repay punctually and without litigation. Repayments of debts are entered in account book of the *mahajans* if they have any or on the back of the handnotes, as may be the case.

Raiyati holdings are inalienable in this district, so no holding has passed out of the hands of actual cultivators nor they are kept as under-*raiya*ts.

Between actual cultivators nearly one acre and a half have passed to one Sanichar Mahato for occupancy rights being proved in the last Settlement operation within last 20 years.

Question 6.—There are rice husking industries still but less than before owing to opening of four rice mills in towns. Local Koeris grow vegetables and they supply local markets. There are many weavers who now use fly-shuttle looms but they are not organized nor they have sufficient capital for the same. They prepare cloths and sell them in local *hâts*. If the weavers get orders or ready markets and their labour be organised then there are immense fields for improvement as there are numbers of weavers here. If even spinning be made paying at least one pice per hour and have ready markets agriculturists may easily learn at their leisure to supplement their income and standard of living and they will then grow cotton too in *bari* lands instead of *kurthi* as at present. I am told that Manbhum district board and Muzaffarpur Central Khadi Pratistha has done much towards this. Sugarcane crop is a supplementary source of income in some villages to paddy produce. The best method of securing working capital for these, I think, is to appoint a local committee of real experienced willing workers with Subdivisional Officer as president who may receive contributions from local district board, co-operative bank, and municipal funds and Government. Besides this, Government in its Industrial Department should, through provincial and district organisations, control and direct their activities. These grants or contributions should be spent for experiment and propaganda purposes or to make good any unforeseen loss otherwise every business should be self-supporting within two to three years. Donations from benevolent persons may also be received. The committee should have a shop of its own wherein raw materials and products of industries like thread, cloth, etc., should be purchased and sold and should have an industrial school attached to it to train workers, spinners, weavers, smiths, etc. Co-operative banks or mortgage bank, if opened, may advance on mortgage of excess materials and products with which further materials or goods may be prepared in dull markets. The committee in return may encourage its produces by advancing on interest up to three-fourths value of their produces mortgaged in dull season. I think the committee should have

cash credit account with the Central Co-operative Bank or mortgage bank, if opened, or with local sub-treasury.

Question 7.—There is only one central bank in the subdivision which is working alone with 115 rural agricultural societies. There is no other bank in the subdivision except Government grain *gola* in 8 centres of the subdivision having a total asset of Rs. 38,327 and 14,482 maunds of paddy. It lends out paddy like Government agricultural loan at 25 per cent. per annum interest to villagers on joint and several liability. There are a good deal of demand for such *golas* in other various centres and are easy to run and have no fear of loss with proper supervision. There is one Deoghar Loan Office, Ltd., registered under Companies Act in Deoghar town which is not working properly for want of workers and funds.

PART II.—INDIGENOUS BANKING.

Question 1.—Though there are no bankers in this subdivision there are *mahajans* whose functions are as follows :—

- (a) To lend cash and paddy at 25 per cent. to 81 per cent. per annum interest on ordinary or mortgage bonds, hand-notes, etc.
- (b) To deal with cheques or *hundis* on commission very rarely, though there is a great demand. They take their cash to Raniganj for *hundis* or to Calcutta.
- (c) To keep deposits on interest if any one offers, which is rare.

Question 2.—They being generally Marwaris, Baniyas, Babbhans, Pandas and Bengalis rarely care for improvement of local industries or agriculture.

Question 3.—Some of the *mahajans* have an internal confidential policy not to advance any loan to one's debtors if his *mahajan* is bent upon purchasing his immovable properties like *pucca* buildings in town areas and zamindari or other saleable assets even if the value of the mortgaged properties be twice the value of the loan required by the debtors to save their properties.

(a) There are innumerable small *mahajans* in rural areas but those few who are the richest in the town have between 20 to 80 thousand as their capital.

(b) and (c) *Mahajans* generally look after their business themselves and have very few expenses besides legal expenses.

(d) There are no relations between *mahajans* themselves or with any bank here.

Question 4.—Some of the local traders who have their shops at Calcutta, too, very rarely accept money from others (if they require for their own convenience otherwise not) and issue *hundis* whose forms are almost like cheques. Samples of handnotes are enclosed herewith.

Question 5.—*Mahajans* grant small loans generally on handnotes or on mere book debts and heavy loans on mortgage registered deeds

Cash credits are not in vogue among *mahajans*. Handnotes are ordinarily repayable in January next though the wording is "on demand". As *raiyyati* holdings are inalienable in this district and very few moveables are saleable, some *mahajans* have their bonds written 50 per cent. in excess of actual loan paid with interest at 24 per cent. per annum therein as threat to the borrowers for non-payment. If borrowers do not pay as promised they are to renew the handnotes with compound interest till they are deep in debt. When *raiyyats* have not sufficient means to pay up such accumulated loans the *mahajans* are compelled to accept payment by instalments. Generally *mahajans* provide themselves with capital from their own accumulated surplus only.

Question 6.—Agriculturists have to pay 25 to 81 per cent. interest on cash and grain lendings per annum. Government may arrange to open banks, control their rates of interest, activities and limit of loans and save them from litigations by providing easy means of realization. Reduction of rates of interest would undoubtedly benefit the agriculturists provided their loan limits be annually scrutinised and fixed in consideration of the increase or decrease of their assets and defaults, etc.

Question 7.—There are a good deal of prejudice against local money-lenders. Dealings of *mahajans* with their debtors are not in sound lines. In years of distress they leave their debtors entirely on the mercies of the Government or death as they have no organisation or reserve behind to fall back.

Question 8.—Indigenous banking system may be made more serviceable to the community if they be formed into an corporate body as shareholders and depositors of a bank. They may be rewarded according to their services rendered to the bank besides their legitimate interest and dividends, etc. The bank should be controlled by the State through provincial organisation and a local committee of Government officers and such shareholders. These *mahajans* cannot be made popular till they know that huge unfair profits, if earned, will be his only and not to be shared by others nor they should handle money themselves until their honesty be established.

Attitude of the *mahajans* would be generally hostile specially of those who are exploiting their clients but they will have consolation as well to learn that there is no danger of investment being lost as is occasionally the case for legal privileges and mutual competition.

Question 9.—Their profit after allowing all sorts of legal and other expenses is generally 20 per cent. to 40 per cent.

Question 10.—*Mahajans* are obliged to refuse loans to their debtors very often for both want of funds and sufficient security of debtors and occasionally, though rarely, they are to keep heavy cash balances in their hands also.

Question 11.—Only through opening of banks or branch banks of a Central (Provincial or Imperial) Bank with a committee of certain local shareholders and local Government servants and partly on line of the co-operative banks.

Indigenous bankers should be shareholders and depositors of the bank and also directors and so not only their local knowledge and experience will be available, there will be no competition nor any ill-feeling.

Question 2.—I think that *mahajans'* money does not find employment throughout the year. If each bank have two sorts of transactions like *mahajans*, e.g. (a) credit, (b) purchase, sale and mortgage of produces, then these funds would find employment throughout the year.

PART III.—INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

Question 1.—The existing resources of banking are in case of—

- (a) *Mahajans*—own reserve or surplus.
- (b) *Banks*—Share value, reserve and other funds, deposits, cash credit and loans.

I think nearly Rs. 4 to 5 lakhs are required to tap the whole area. At present postal savings bank, co-operative banks and societies only are the institutions to encourage savings but they are also very few in numbers, and the public are not yet thoroughly acquainted with them. There are no banks for the public to open current accounts in the whole subdivision and this is a great difficulty for traders, *mahajans* and contractors. The existing facilities only provide for savings deposits and not current account.

If extended in interior it will work well. When country was not in peace villagers were used to hoard their savings in silver and gold coins below the earth but gradually those habits are disappearing with the extension of education and present civilisation.

Question 3.—Farmers, if they have to spare, do lend to fellow-agriculturists on bonds at 24 per cent. to 50 per cent. per annum. 95 per cent. of the agriculturists are poor and have no surplus left even in a prosperous year after meeting all their rent and other liabilities of current and previous years. Occasionally some of them become *mahajans* for a few years till a famine year crushes them again to poverty if they have no other income to stand on. Family quarrels for share and litigation are also one of the causes for such poverty.

Question 4.—Vernacular scripts should be used in transaction with illiterates. Bengali and Hindi both are required in this part of the province.

Question 5.—Banking and investment habit in India is not of slow growth now. It is only the poverty due to following causes :—

- (a) Constant failure of monsoons and less produce for want of manure in fields due to less number of cattle. for want of pasture grounds, innumerable *ails* and partitions of plots.
- (b) Having no other income for idle hours in the shape of cottage industries, etc., to supplement their other needs or save their only paddy harvests.

- (c) Exploitation by *mahajans* in heavy rates of interest and traders through middlemen in rates of purchase and sale of commodities.
- (d) Want of economy in ceremonial expenses.
- (e) Litigation.
- (f) Having no organisation for industrial, agricultural and other improvement.

Replies to Additional Questions.

Question 1.—Yes, the district is backward for (1) illiteracy, (2) want of saleable or mortgageable assets, (3) poverty with no other fields for business of trade activities.

Question 2.—There is no joint stock bank except one loan office of Deoghar with almost having no business for want of funds and workers.

Question 3.—(a) Post-offices can open current accounts with customers and contractors. Government may undertake this business.

Question 4.—Yes, there is scope for banks or other credit agencies like pawn shops lending on valuables. Such institutions should be State controlled, if not owned.

Question 5.—Yes, the *mahajans* mix up various transactions together. No legislation can inspire confidence or remedy all the evils of *mahajans*.

Question 6.—Yes, indigenous bankers may be more adequately protected by pooling information about their clients.

Question 7.—If banks are not possible then Government should set up registered and licensed money-lenders with special facilities and privileges whose operations may be controlled by the State. I would not restrict their lending to productive purposes only as it would merely teach *raiya*s underhand business and to speak false, moreover such restriction is not possible. I would put the following restrictions:—

- (a) There should be two sorts of loans : (1) cash credit for annual ordinary expenses including marriage and *sradh*, etc., repayable in every year or two, on book debts and (2) loans for improvement or special purposes requiring a number of years to pay, upon mortgage bonds.
- (b) Each village community should fix their *raiya*s' annual cash credits and loan limits which with the approval of the money-lenders should be scrutinised and approved or lowered by Government officers. Money-lenders should not be allowed to finance in excess of the limits so fixed.
- (c) The money-lenders should distribute and collect loans publicly and should grant receipts and enter in cash credit or loan pass books and maintain registers up to date liable to audit and inspection by Government officers.

Question 8.—No; value of land is neither forced up nor is excessive in consideration of the value of its produce in a normal year.

Question 9.—Small traders, industries and small contractors are dependent on market demands and their capitalist.

I think there should be a shop or a bank for (a) to provide them with raw materials at cheap rates, (b) to purchase or advance on mortgage of their produces in dull season and recover the same with interest when the market is favourable, and (c) to procure orders or to arrange for their sale at favourable markets.

Oral Evidence.

Chairman : You come from Deoghar?—Yes.

You are Manager of the Central Co-operative Union there and you also have some connection with the Government grain *golas* there?—Yes.

Could you explain what is a grain *gola*?—In the year 1897 there was famine. The Court of Wards estates, Rohini and Punasi, were in charge of Khan Bahadur Maulavi Nejabat Husain who was the Manager. With permission of the Deputy Commissioner he took Rs. 2,000 from Rohini and Rs. 1,000 from Punasi Estates surplus to grant *takavi* to the *raiyyats*. After the harvest it was decided that as such famines are likely to happen occasionally a loan business should be started for the needy *raiyyats* and that the estates realised paddy instead of the amount lent to them. That formed the capital of the estates. It went on investing that amount with the *raiyyats* and realising 50 per cent. interest. In the year 1904 the Co-operative Act was passed and Mr. C. H. Bompas, who was then Deputy Commissioner, proposed that this property should be made over for the benefit of the *raiyyats*, and the Ghatwals of Rohini and Punasi agreed to his proposal. This accumulated paddy was then made over to the Deputy Commissioner. The former did it gratis and Punasi took back Rs. 1,000 the amount originally invested by it from part sale of the paddy. The Deputy Commissioner appointed the Subdivisional Officer as President and the Manager as Secretary and placed each of these grain *golas* in charge of two local rich agriculturists. I see from the correspondence that it was called an agricultural grain *gola* before I was appointed in 1908.

In what capacity?—As a clerk for the *golas*. After that according to the suggestion of the Deputy Commissioner I organised it on co-operative principles. Till 1926 there was no co-operative central bank and the grain bank was doing all the functions of the central co-operative bank, but it was not registered.

Was it inspected by the Deputy Commissioner and Subdivisional Officer?—Yes by both. The Subdivisional Officer was the President and always at the helm of the affairs. Occasionally Mr. Gourlay, who was then Registrar of Co-operative Societies, Bengal and his Personal Assistant visited the grain *golas* and gave various suggestions for its improvement.

Could you tell us where the grain *golas* are actually situated?—There are four thanas in the subdivision and in each thana there are two or three *golas*. In all there are eight *golas*.

How many people are served by these *golas*?—About one-third of the area.

Mr. Hodge: The operations are not confined to members of co-operative societies?—No.

Chairman: Anybody can deposit grain in these *golas*?—No deposit is received in grain. It is all accumulated reserve.

But the loan can be taken by any *raiyat* of the Deoghar subdivision?—At least five of them must be residents of the village and jointly apply through the *punches* for getting the loan.

Mr. Hodge: Is there any special arrangement for co-operative societies?—We were employees of the grain *gola* till 1926. In 1927 the grain *gola* stopped cash-lending business, and our services were transferred to the co-operative bank. There is a joint staff for the *gola* and co-operative union.

Chairman: Would it be correct to say that something round about Rs. 20,000 worth of grain is lent out nowadays every year?—Yes.

You have a reserve fund in grain worth about Rs. 67,000?—Yes, in grain and cash.

Do you think that the grain bank with its eight *golas* satisfies the needs of the *raiyats* for borrowing grain?—No. It covers only one-third of the population and we give loans only to those who are punctual. If loan applications from new groups are received and we have got no paddy we refuse them.

Your idea is that the organisation might be usefully expanded in the Deoghar subdivision to three times its present size?—Yes.

Is there often total loss of the grain lent by failure of the people to repay?—No. In grain *golas* we collect about 75 to 95 per cent. They pay it more easily and promptly than cash loans.

What rate of interest do you charge on grain?—At the time of the Court of Wards it was 50 per cent. Now we charge 25 per cent.

I suppose ordinarily speaking the price of paddy when it is repaid is lower than when it is lent out?—Yes. The difference of price at the time of repayment is lower than at the time of lending out paddy.

What is the grain usually lent for?—For seeds as well as transplantation. The *raiyats* bring and keep their own seeds in bundles, they are marked and kept in separate rooms. At the time of taking loans they take away their bundles.

Does it operate as a warehouse for the seed which is not required till the following year?—Yes.

Is there any charge made for that at all?—The *raiyats* bring their seed grains for storage and the *golas* do not charge anything in excess than 25 per cent. interest for that.

That is not lending at all. It is safe deposit of seeds?—Those seeds are kept in *golas* for not merely safe deposits but also for satisfaction of loans. Interest is charged at 25 per cent. for seed as well as transplantation costs.

Mr. Hodge : Do you accept any responsibility for the safekeeping of these bundles?—Yes. We have appointed two agriculturists in charge of it. They get 10 per cent. on the total collection inclusive of all expenses, petty repairs, etc.

They are the executive of the *gola*?—Yes.

Professor Batheja : Would the *gola* be responsible for loss, say by fire?—Yes.

Have there been cases of loss which have been met by the *gola*?—During my service there were two losses by leakage in the roof.

Chairman : Do you insure your *golas*?—No. Our plan is to cover it with galvanized iron sheets now.

What class of *raiyyats* form the bulk of the customers of these *golas*, Santals or non-Santals?—Santals and non-Santals both. Big agriculturists also take loans from the grain *gola*.

Is this the only grain bank in the Santal Parganas, or are there some *golas* in other subdivisions?—There are grain *golas* in almost all subdivisions, working on different plans and principles.

Then the controlling authority of this grain bank is the Subdivisional Officer?—Yes, subject to certain sanctions of the Deputy Commissioner.

Has he any committee to advise him?—No.

Is it a very heavy task for him?—Generally he has to devote from five to ten minutes a day. He inspects *golas* when on tour.

Has the co-operative union any control over these *golas*?—No. We only pay them for the audit.

Prior to the foundation of the central co-operative union did you have any audit at all?—No.

Are you still employed by the Subdivisional Officer for this work?—Yes.

What other staff have you?—I have got three circle officers and two office clerks to help me.

Am I right in thinking that the cost of managing the grain bank including both the contribution to the joint staff that also looks after the co-operative union and the 10 per cent. commission on collections given to the *goladars* is somewhere about Rs. 3 to 4 thousand a year?—Yes.

I suppose the time for lending out is comparatively short?—Generally in June and July.

Is it all over in July?—Most of the loans are lent in July and very few are granted later on.

Do you see any reason why this system should not be extended to the rest of the subdivision? Would there be any difficulty about getting

satisfactory *goladars*?—If reliable local *goladars* are available, then it will work satisfactorily.

Are these *goladars* educated people in any sense?—If they are educated up to lower primary or upper primary standard that is sufficient.

Mr. Hodge : What about the *gola* building itself? Is that costing much money?—At Madhupur only we have got a *pucca* building in the town area and in other places, partly *pucca* and *kutchu* which cost us Rs. 2,000 average per *gola*.

Who paid for the building?—From its own reserve.

Is that how the profits are disposed of?—After paying all expenses, the profit goes to the reserve fund.

Out of that reserve fund you could build new *golas*?—Yes. We first try an area. If it goes on well for two or three years, we build a *gola*. We do not get any subsidy from Government.

Chairman : Do you have to go into court against any of the customers?—Yes.

I take it that the fact that the Subdivisional Officer is the sole controlling authority and is also the local civil court makes it rather easy to get your dues?—Yes.

Do you think there might be considerably more difficulty if you started these *golas* in a regulation district?—Wherever there is demand for loans in kind this scheme will be successful.

Mr. Hodge : Do you set apart so much every year against loss?—No.

Chairman : Is your reserve fund held partly in grain and partly in cash?—Yes.

You keep to the capacity of your *golas* and anything over that is sold and turned into cash?—Yes. When we find that our stock is left and it may deteriorate, we sell in the open market.

Who decides when to sell?—When there is such a necessity we report our stock to the Subdivisional Officer, the stock is put to auction by him and the highest bidder of the rate is asked to deposit a certain amount of security to take delivery of the whole thing within a fixed time.

Do you find yourself usually pretty right in picking the time to sell?—We generally sell from July to September, i.e., after meeting all the demands during the loan season of June-July, and before there is any pressure on the market from the new crop coming forward, and if we see that we would not require so much paddy for next year.

I suppose you take into account how the monsoon is behaving?—Yes.

Suppose a group of borrowers fail to pay on the new harvest what further interest do you charge?—In the second year we charge 25 per cent. on the principal unpaid.

That is to say, the man pays 25 per cent. on his original borrowing for six months or thereabout and for the following year he pays another 25 per cent. on his original borrowing?—Yes. Only on the principal quantity remaining unpaid.

Is he allowed to run on to three years?—Yes, if the *goladar* undertakes that he will be able to realise without any suit and the defaulter offers his produce as security.

Then there is another 25 per cent.?—We can add interest provided it does not exceed 50 per cent. of the original quantity lent out.

In no case you charge more than 50 per cent. above the original loan?—No.

Mr. Hodge: Have you ever charged penal interest?—Not in grain *golas*, but in societies.

Is there any opposition to these grain *golas* on the part of private dealers?—There were many *mahajans* before but gradually they are disappearing.

Do you think 25 per cent. is still a reasonable rate of interest or should it be further reduced?—That depends on the establishment cost. If possible, it should be reduced as far as possible.

Professor Batheja: You say that Government *golas* only satisfy one-third of the demand for accommodation. Where do the *raiyats* raise the rest of the demand?—Where we have not opened grain *golas* they have *mahajans* and even where we have grain *golas* there are grain lenders within some villages though in small quantities.

Chairman: You have not been able to bring down the general rate of interest to 25 per cent. for grain *golas*?—The *mahajans* cannot compete at this rate.

Professor Batheja: If you extend your business still further to cover all the requirements of the people, do you think you would be advancing money to unsafe customers?—Yes. It should not meet all requirements for peculiar laws of the district.

What principle do you adopt in rejecting the applications?—Generally we receive applications in May to June and we first consider the applications of old borrowers and if we see that we have still plenty of paddy left to advance new batches then we advance to them in July.

You do not reject because a particular party is untrustworthy?—There are certain customers who harass us for habitual default.

Where do they meet their requirements?—They feel much difficulty and have to stand before the Subdivisional Officer again for mercy.

Is it possible for them to fall back on the *mahajans*?—The *mahajans* rarely lend to a *raiyat* who comes to the *gola*. In some cases *mahajans* had shut their doors before, otherwise they would not have come to the *golas*.

Do you mean that only the people who cannot raise money from *mahajans* come to the *gola*?—I mean that some of those who are undesirable clients of the *mahajans* have to take shelter in the grain *golas* only.

Are the grain *golas* more prompt in advancing than the *mahajans*?—Yes. The recommendation comes to me, I scrutinize it and get the orders of the Subdivisional Officer.

How much time does it take to issue loans?—We issue loans for seed in June and transplantation in July.

Supposing, meanwhile, before or after that they feel need for grain, will the grain *gola* help them?—Very rarely. Generally we take one application in which they will apply how much seed and how much transplantation cost will be required. They may get twice or thrice on the same petition but the sanction is made only once generally.

As soon as an application is made once is there a tendency on the part of the borrowers to be on the safe side by demanding more grain?—That is very rare.

Do I understand that the *mahajans* have to deal with two kinds of customers—people who are able to borrow money from him without falling back on *golas* and people who are not able to borrow from *golas* and have no other course but to go to the *mahajans*?—Yes both kind of customers. The *mahajans* finance grain *gola* members also in cash. They do not generally lend grain to *gola* borrowers.

Have you ever come across a man trying to get grain from your *gola* for the purpose of trade?—Rarely. We calculate how much area of land he has to cultivate and advance grain accordingly.

You do not think it is a serious danger?—No.

Is there a danger that a man may borrow grain from the *gola* and sell it in the market and utilise the profit for his other needs?—There is no danger, if he has his own seeds and transplantation expenses. He sometimes spends the money for purchase of bullocks for agricultural purpose.

Have you any check on such members who misuse the privileges given by the *gola*?—I do not think that any such check is necessary.

Mr. Hodge : As a rule, can you meet all the requirements of your customers?—No. Not for marriage or other cash requirements.

What happens in the case of others?—They have to go to the *mahajans* or societies for small cash loans.

Professor Batheja : Is there any agency in your part of the district for financing land improvements?—No.

Do the Santals make any permanent improvements to their land?—Yes. In reclaiming waste land small capital is required. They can manage from their surplus or from paddy loans. They do not excavate big *bandhs* like “ Dikkus ” or non-Santals.

Is it possible that because the Santals are comparatively more honest that your system work?—In my area we have more Dikkus than Santals.

Chairman : What percentage of your customers of the grain *golas* are Santals?—Not more than 20 per cent.

Have you got any experience of any other district?—No.

Is it a general rule in the Santal Parganas that in no case can a debt swell to more than twice the original sum lent?—Yes. But there are cases where it exceeds due to subterfuge by *mahajans*.

Can you describe any subterfuge which enable the *mahajans* to defeat that rule?—Generally they get hold of the *raiyat's* lands illegally. They cultivate these and realise 50 per cent. for cultivation expenses and out of the balance they take the amount lent with interest. If anything remains unpaid they again cultivate next year and readvance such loans.

Professor Batheja : How do they get these illegal possessions?—The *mahajan* says that he can only advance money if he can get the land.

Chairman : You say that they can evade the Santal Civil Rules. How can they evade these rules?—It is nothing but a mutual arrangement by which the *mahajan* gets hold of the land to cultivate.

Professor Batheja : Do they evade it by actually paying them less than what has been mentioned in the agreement?—Yes. As a rule they have the bonds written 50 per cent. in excess. That is one of the threats to the borrower to make him punctual.

Mr. Hodge : Do you know of cases where it has been done?—Yes.

Chairman : In speaking of the defects of co-operative banks you say that borrowers should not be directors of the board?—I mean that if the borrowers control our action, we cannot exercise our control.

Is it not desirable that some of the people for whose benefit after all the co-operative union is started should have some say in the management of the union or bank?—Of course, that is the idea and principle of the co-operative institution. From that point of view it is desirable.

Do you not think that the borrowers should be able to put up a fight against the other interests for these reasons that the interest of the borrower is to get the rate of interest lowered whereas the interest of the shareholders and depositors is to keep up the rate paid on deposits and the dividends paid to the shareholders? Do you not think it advisable that the interests of the borrowers should be represented on the directorate?—Yes. But they should not control the staff. They should not dictate whether any loan should be given.

I take it that the real trouble is that the directors are inclined to interfere with the details of management and do not confine themselves to the principle?—Yes.

Professor Batheja : Do you also fear corruption if directors control the inspecting or the managing staff?—The directors may remain like an advisory committee. They should not control the actions of the staff unless they be specially empowered. The main control should be in the hands of the executive authority.

Chairman : You speak of the Deoghar Loan Office working in Deoghar town. What type of business was that doing?—It was started by one gentleman and he had the idea to carry it on.

Are they Bengali residents of Deoghar?—Yes.

May I take it as probably an importation from Bengal rather than the natural growth of the soil?—Yes.

Was it financing more or less well-to-do people in the Deoghar town?—It financed those men who were favoured and had not large assets to realise.

Were they mainly *bhadralok*?—Yes and some men of the Bihari community also.

Was there no direct financing of *raiyats* by that loan office?—No.

Professor Batheja: What is the rate of interest charged by the loan office?—I am not sure but I think it is 24 per cent. or less.

Does it accept deposit?—Yes, but nobody deposits.

Chairman: You say that the profit of *mahajans* after allowing for all expenses is 20 to 40 per cent. Have you any evidence of that at all?—My idea was to form a money-lender's bank in place of a land mortgage bank. I asked them to form themselves into a banking institution and to issue loans on mortgages. They asked us to take up the risk which we could not.

Professor Batheja: What risk did they ask you to take up?—The risk of management which we could not take.

Mr. Hodge: Were they prepared to take shares in it?—Yes. At least in Deoghar, people have faith that wherever there is the subdivisional officer, or it is Government concern, the money is safe.

Professor Batheja: Are they not willing to join this bank under the impression that their expenses would be reduced very much and it would pay them to join the bank?—Their profit will be less. They get the profit in various ways, partly legal and partly illegal.

Mr. Hodge: Is there any Government report on the working of these grain *golas*?—No. We submit reports to the Commissioner when it is asked for.

Is the grain *gola* dealt with in any way by the Registrar of Co-operative Societies?—No. We ask for audit and he asks the Assistant Auditor to audit and we pay for that.

**Dr. R. M. MACPHAIL, Church of Scotland Mission, Bamdah,
District Monghyr.**

On reading over the questionnaire, it seems to me that the only points on which I can give information likely to be of use to the Committee are those in connection with the amount of indebtedness of the Santals in this district. There is no doubt whatever that the land here, which has almost entirely been brought under cultivation, reclaimed from jungle, by the Santals, is passing rapidly into the hands of money-lenders, to whom the Santals fall an only too easy

prey, and if this state of things is to be stopped, it seems that the Santals must be protected against their hereditary foes by law more effectively than they are at present.

In order to find out the amount of indebtedness that has actually been involved, I have recently carried out a small survey in villages in this district, of which the results are summarised in the following table :—

1 Name of village.	2 Total houses.	3 Houses reporting.	4 Houses in debt.	5 Total R. .	6 Debt, Rupees.	7 Cases in which land is involved.	8 Government taxation.
1. Phitkoria ...	14	14	6	266	13	1	60
2. Bhalua ...	16	16	7	1,320	?	0	?
3. Chata ...	34	24	13	940	273	4	150
4. Lakra ...	12	12	3	125	?	3	?
5. Kendbona ...	13	13	6	591	93	2	70
6. Berwari ...	9	9	9	1,456	45	0	85
7. Ambadih ...	7	5	5	288	17	0	20
8. Maesapathal ...	10	5	5	3,064	?	4	125
9. Muhlia ...	10	10	3	316	38	2	0
10. Bathnatola ...	14	14	11	1,022	117	11	140
11. Kharhari ...	4	2	2	171	32	?	0
12. Saraisol ...	4	4	4	308	18	1	0
13. Piprosol ...	19	19	14	302	79	1	65
14. Bhangua ...	19	9	9	650	66	?	90
15. Tarakhar ...	16	16	10	801	700	1	70
16. Domuhani ...	22	6	6	1,965	36	5	75
17. Karijhal ...	20	6	6	976	41	6	60
18. Pojha ...	15	5	5	2,299	67	5	60
19. Sapaha ...	14	11	10	1,070	628	1	150
20. Salola ...	20	10	5	295	44	1	150
21. Rehma ...	35	8	8	1,274	177	4	110
22. Cihara ...	16	6	6	888	62	6	?
Total ...	343	224	153	20,387	2,546	58	1,480

These villages are all predominantly Santal, and are, as far as could be judged, a representative collection of Santal villages in this district. Any village which might, for any reason, be exceptional, was not included in the survey. As the average Santal is very vague about his debts, the figures cannot be vouched for as accurate, but are probably sufficiently so to give a broad indication of the position. Figures of which I was particularly doubtful have not been included in this table. Some villages have submitted returns of only some of the houses, but the total number of houses in the village has been given in column 2.

Column 4.—As debt, like land, is usually held in common by the household, it seemed better to take this as the unit than the individual. A further analysis of my figures has revealed the fact that the individual debts vary greatly in amount. I have summarised them as follows :—

Rupees 1—9	...	10 debts.
„ 10—99	...	85 do.
„ 100—999	...	56 do.
Over Rs. 1,000	...	2 do.
Total	...	153 do.

Column 5.—Debts shown in this column are all due to *mahajans*, or local money-lenders.

Column 6 shows the amount of rice owed, in maunds, by the villagers to the *mahajan*. This is given at 50 per cent. interest, from the time of sowing to the harvest, and is repaid then in kind. If not then repaid, it is generally converted into currency the following year, at the time when rice is fetching its highest price, and at that rate.

Column 7 shows the number of cases in which the villager's land has been pledged, in some degree or other, to the *mahajan*. The Santal will only consent to do this when his debt has reached very considerable proportions, and he is very badly in need of more money. As explained later, this is generally the penultimate stage in a very gradual process whereby the land passes from the cultivator to the money-lender.

Column 8 refers to 'Takavi Loans' received from Government eighteen months ago, at planting time, following on a year of considerable shortage. This was to be repaid in two yearly instalments, interest being charged at the rate of 1 anna per rupee per annum. Half of the amounts shown has already therefore been repaid; but the whole is shown as this amount influences to a certain extent the indebtedness of the villager to the *mahajan*, i.e., had it not been for this loan, the debts shown would have been by at least so much larger than they are. Only one village reported that they had received Government loans for agricultural improvements, amounting to Rs. 800, to be repaid in five yearly instalments.

With regard to certain points which are not shown in the table :—

Interest.—The interest generally charged by the *mahajan* is 6 annas in the rupee per annum, or $37\frac{1}{2}$ per cent. In practice, however, his profit generally exceeds rather than falls short of this figure. For instance, the villager generally pays his debt in rice, etc., rather than in cash—the *mahajan* sees to it that he does so at harvest time, when rice is at its lowest value. When, however, a debt incurred as rice, etc., is converted into currency by the *mahajan*, he does so when rice is at its highest value. This is only one instance of several ways in which the money-lender manages to oppress the people.

Security on which the debts are incurred.—To begin with, this generally consists of cattle, standing crops, etc. When the debt has accumulated a bit, the *mahajan* refuses to give any more advances without land as security; and in this the *mahajans* generally back each other up, one refusing to give an advance to any villager who has already incurred debt elsewhere.

Purposes for which debt is incurred.—Owing to the vagueness of the average Santal about his financial affairs, and to the fact that the figures shown represent the present

debit balance on a running account of many years' duration, I have found it impossible to make any accurate estimate as to the proportions of debt which represent various needs and luxuries of the people. My general impression is that the majority of it is incurred in order to carry on agricultural work. Most Santals have no idea of keeping ready money, and so, when the annual rent or *chaukidari* tax, etc., falls due, they go again to the *mahajan* for another advance of money. In the same way, rice and other seed for planting is nearly always borrowed from the same source. A smaller proportion, I think, is incurred for the expenses of marriages, etc. But it is no doubt the heavy interest charged that is the chief evil of the system. Once a small landholder gets the least behind in payment of debt, this, accumulating at compound interest, becomes by far the largest factor in the total amount.

To whom the debt is due.—As can be seen from the table, almost the sole creditor is the *mahajan*, or local money-lender (except in times of famine or scarcity when *takavi* loans are available). It seems to me that the *mahajan* has got this practical monopoly because he studies the needs of the people, and sets himself out to give small amounts whenever desired.

Along what lines is a solution possible? —

In finding any solution for this problem, it seems to me that two main points have to be taken into consideration:—

1. The Santal is incurably improvident, or at least the day when he will cease to be so is not yet in sight. He has not yet reached the stage when he can look ahead and husband his resources. Till he reaches that stage, some means must be found of helping him to meet the financial claims which legitimately fall on him from time to time during the year: in getting seed at planting time, and money to pay his rents when required;—without at the same time becoming entangled in a hopeless net of rapidly-accumulating debt.
2. It is little use to give him a system whereby he can draw money (or seed) only once or twice in a year. Even if he were allowed then to draw sufficient to meet the needs of the whole year, there would be none of it left at the end of a month. This is one reason why the Co-operative Bank is not more widely utilised here (not one of the villages included in the above table had apparently made use of that bank). If a *mahajan* knows that a villager has had a loan from such a bank, he refuses to lend him money, and he is in consequence at a loss where to find money for his rent, etc.

It seems to me therefore that the solution lies somewhere along the lines suggested in no. 7 of the " Additional Questions for the Bihar and Orissa Committee "—i.e., in the setting up of a class of licensed money-lenders whose operations may be controlled by the State in the interests of agriculture, etc. They should be allowed to make small advances for legitimate purposes when required, and their rates of interest should be strictly controlled.

In the meantime, it seems to me that a certain amount of restraint might be imposed by the introduction of legislation to the effect that a money-lender may not, in any circumstances, claim a total of interest greater in amount than the principal of the debt incurred. I understand that this has already been introduced in the Santal Parganas, and is found to work well.

Oral Evidence.

Chairman : I think your Mission is situated in the Monghyr district fairly close to the border of Santal Parganas?—Yes, within about 8 to 10 miles from the border of Santal Parganas.

And the population is mainly comprised of Santals?—Yes. But in the subdivision as a whole the Santals are in a minority.

You have given us a very useful statement giving the amount of indebtedness in the several villages of your district. Your survey, I presume, is mainly confined to the Santal villages?—Yes, that is so, excepting a few Hindu families in some of the villages.

Have you got the originals of these surveys?—Yes, I have them. I asked the people in the villages to collect the information and when they brought us the same I also questioned them to find out whether they represented the true state of affairs.

I find most of these originals are in Hindi. Who translated these things for you mostly?—They were mostly done by the teachers in the Mission schools and others as well.

You say that " Debts shown in this column are all due to *mahajans*, or local money-lenders ". Possibly you refer to column 5 giving the total amount of indebtedness?—That is so.

In the area for which you have got these statistics, I presume, land can be sold in execution of debt?—Yes, that is generally done and there is no legal objection to the same.

So far as Santal Parganas is concerned, I suppose the law is well enforced?—I think so.

A great portion of the land you say goes out of the hands of the cultivator into the hands of the money-lender?—Quite a considerable portion of the lands have gone out of the hands of the cultivators in that way if we look to the total for the last ten or fifteen years.

You say that a debt is generally converted into currency the following year, at the time when rice is fetching its highest price. Is the

debt (which was originally given out in kind) booked by the *mahajan* as a money debt?—I say this only in the case of defaulters. Generally, all grain loans are repaid at harvest time.

I suppose you have heard something about the organisation of the grain *golas* in the Santal Parganas?—Yes.

Do you think that there is any prospect of organising on that line?—I have no experience of the working of these *golas* and so I cannot say about its possibilities, with any definiteness. There are certain possibilities I think of its improvement, but as the people point out it is not only rice and paddy that they want on loan, but it is also cash as well.

I think provision for money loans has recently been added by the central co-operative union there and its affiliated societies in Deoghar district. People there can now borrow grain as well as money loans?—I think that is being done now.

Professor Batheja : Do you not think these Government *golas* suit only the primitive type of villagers?—That is so, but they are mostly situated in the Santal villages.

Do you think this system can be extended to other parts of Bihar?—I think something in that line ought to be done.

Mr. Hodge : Are the Santals round about your mission agriculturists?—Yes, mostly. But *many* of them are now migrating to other provinces.

Chairman : Where are they migrating to?—Most of them are labourers. Some of them go to Assam and work in the tea gardens and some others go to Bengal, where I understand they are getting very good wages in some parts of the province.

Mr. Hodge : Are these people accustomed to combine for common ends?—I understand they have got a village organisation for their social needs. But in money dealing they do not generally combine.

Are the *mahajans* there Santals?—No, never. Santals never do this business there.

And who are these *mahajans* that do the work there?—They are mostly Biharis who are shop-keepers as well.

Professor Batheja : You think in the present state of affairs the *mahajan* entirely dominates the Santals?—That is true.

And do you think the procedure of the co-operative banks does not suit the needs and convenience of these people?—Their chief objection is that they do not get their loans whenever they want.

How much time elapses between the application for the loan and the grant of the loan?—I am not sure about that.

Chairman : Are the people who are members of the co-operative societies very poor generally?—Of course, they are mostly poor but they are enlightened people.

Professor Batheja : Are they people who, having failed to get accommodation from the *mahajans*, resort to co-operative societies to meet their requirements for loan?—That is not my experience.

In some parts of Bihar we have heard it said that people resort to co-operative societies only when they find other resources are not open to them to meet their loan requirements. What is your opinion?—I have no personal knowledge of the working of co-operative societies, and I have not heard it said either.

What are the other objections of the Santals against the co-operative societies?—I cannot say.

Do they dislike the principle of joint unlimited liability?—Yes, they do.

Mr. Hodge : Has any endeavour been made to extend the co-operative movement there?—They were making some endeavours some years ago but not now.

You say that 50 per cent. is the usual rate of interest charged by the *mahajans* on grain loans. Do you think it is excessive?—Certainly it is.

You have heard that at the Government grain *golas* the rate is only 25 per cent.?—Yes.

Professor Batheja : Do you suggest that since the co-operative societies are not quite convenient to the people in your part of the country, if a class of licensed *mahajans* were set up, that would be beneficial?—That is not my own suggestion. I find it is suggested in the questionnaire itself. I agree that some such way of tackling the problem is quite good.

Do you think there is any prospect of eliminating all the village *mahajans* in the near future?—I do not think it is quite possible.

But do you not think that if you have got a set of licensed *mahajans* they will gradually be able to drive out the unlicensed ones?—I think so, on the principle that good will turn out evil.

You do not advocate the combining of long-term with short-term credit?—No, I would have them separated.

Would you restrict the operations of the *mahajans* to short-term loans?—They should mostly be confined to granting short-term loans.

Chairman : I find you are in favour of having some restraint imposed by the introduction of legislation to the effect that a money-lender may not claim a total of interest greater in amount than the principal of the debt incurred, as is done with useful results in Santal Parganas. Do you think that the creditor will not evade such a law?—Of course it might be possible to evade the law, but if it became widely known that there was such a legislation, it will have a good effect on the creditor.

You are in favour of imposing the provisions of the Usurious Loans Act as well?—Yes, that is the present law and I would advocate the enforcement of that law with greater care than is done at present.

Professor Batheja : Would you be surprised to hear that the provisions of the Usurious Loans Act wherever it is imposed have been successfully evaded?—I would not be surprised. I can understand the difficulties of bringing proof, but I would advocate the creation of the fear all the more strongly.

Do you think the present rate of interest charged by the *mahajans* is determined as a result of economic forces?—Not altogether. It is more greediness, I should think.

Is there shortage of capital for financing the ordinary day to day needs of agriculture?—So far as the *mahajans* are concerned, I think they have enough capital, but the ordinary villager stands in need of capital.

When there are any number of *mahajans* who have sufficient funds at their disposal, would not that create competition among them and thus tend to lower the rate of interest?—When their common interests are concerned these *mahajans* work in common, so they do not lower the rate of interest.

Mr. Hodge : Santals seem to be rather improvident. Is any endeavour made to popularise the post-office savings bank among them?—The system has not become very popular with the Santals, but some people do invest their surplus earnings, if any, in the postal savings banks. On the other hand, we have got our Mission bank which is doing some useful work.

Does the co-operative society develop the habit of thrift?—I think so, but I do not know how far they have got deposits.

Chairman : What exactly are these Mission banks you speak of?—My father used to lend out of his little surplus money small loans on a low rate of interest to agriculturists on the plan of co-operative banks. But he found it difficult to get back the loans in some cases. So now, money is lent out only on the surety of other responsible men. Mostly, these loans are given out to people who work under the Mission and who are in need and the loan is realised in instalments, from their pay.

What is the rate of interest you charge?—We charge 12½ per cent. on loans lent out by us and on deposits we give Rs. 3-2-0 per cent. per annum.

Professor Batheja : You have definitely told us that the high rate of interest charged by the *mahajans* has not resulted from economic causes. Do you think that the rate could be brought down by the State intervention?—Yes, it could be done with some amount of success if the business of the *mahajan* is licensed and brought under law, and his working is properly checked by Government agencies.

How would you make sure that the rate of interest charged by a licensed *mahajan* is the same as that fixed by the financing agency or Government?—The *mahajan* should be asked to keep regular accounts and to give receipts for the loans.

Would there not be a danger of abuse?—There will be, I think, but it will be easier to prevent abuses when they are worked under control of Government than without it.

Babu MATHURA PRASAD, B.A., Assistant Registrar of Co-operative Societies, Bhagalpur Circle.

An agriculturist needs money for expenses during cultivation, mainly for the purchase of seed and payment of labour. The proportion of the cultivators using fertilisers is very small but wherever they exist they generally borrow money for the purchase of manures also. Seeds are seldom purchased for cash nor is labour generally paid in cash except during transplantation where the labour is not local. *Raiyats* mostly borrow grains for seeds on the *deorha* system from local *mahajans* which means that a maund of paddy when taken in *Jaith* is repayable at the harvest time in *Agahan* with 50 per cent. interest although the period is only about six months. Except the members of co-operative societies, who meet all their requirements by means of loans from their societies, the agriculturists in general borrow cash or grains from the local *mahajans* who are either professional money-lenders, well-to-do fellow *raiya*s, small resident zamindars or their *amlas*, or local Marwaris or *bantias*; villagers in the vicinity of towns borrow money for their requirements from indigenous bankers known as Kothiwalas. *Kabulis* and *Gosains* of Chapra also do money-lending business in remote villages where local money-lenders or co-operative societies do not exist.

For capital for any trade such as dealing in grains, ghee, *gur*, etc., or establishing a shop the sources of finance are, again, the local money-lender, or the co-operative society. In very rare cases an agriculturist takes a loan for land improvement purposes and such loans are seldom taken from *mahajans*. These are obtained mainly from Government and co-operative societies. Occasionally an enlightened zamindar who enjoys the popularity and confidence of his tenants gets some work of improvement done either wholly or partly at the cost of the tenants who are required to execute hand-notes for the sums assessed if they are unable to pay them in cash.

In times of distress such as general failure of crops due to drought or flood *takavi* advances under the Agriculturists' Loans Act or the Land Improvement Loans Act are taken wherever these facilities are offered. But members of co-operative societies are not generally allowed by the co-operative banks to borrow from Government principally for two reasons, namely, (1) the amount sanctioned by Government for distribution as *takavi* in any subdivision is not always adequate and the banks consider that they had better be utilised in helping those tenants who have not got any other agency to fall back upon; (2) the interest of the Government and the co-operative societies would clash during collection.

The rates of interest charged on cash loans by local *mahajans* differ in different localities and range from 12 per cent. to 24 per cent. where the loans are secured by mortgages of immovable properties; and from 18 per cent. to 75 per cent. on unsecured loans. Where gold and silver ornaments are pawned the usual rate is $\frac{1}{2}$ anna per rupee per month which comes to Rs. 37-8-0 per cent. per annum. Some people also take advances on the security of milch cows and buffaloes as well as plough cattle. These animals are made over to the creditor as usufruct and the *mahajan* generally fixes the term of repayment as three or four months. During this period he enjoys the milk or uses the plough cattle in lieu of interest. On the failure of the debtor to repay the debt on the stipulated date the property passes over to the *mahajan* finally. Standing crops also are taken as security, particularly jute, sugarcane, tobacco, paddy or chillies. The rate of interest in such cases, is usually $\frac{1}{2}$ anna per rupee per month with the further stipulation that the *mahajan* shall have the first claim to purchase the crop when harvested at rates settled then and there irrespective of any consideration of the market rate obtaining at the time of harvesting. The period of loans is immaterial in determining the rate of interest but sometimes the amount and the status and character of the borrower as also the nature of the security offered and his previous indebtedness affect the rates.

The co-operative societies in my circle charge interest on loans to members for all purposes at $12\frac{1}{2}$ per cent. in the Bhagalpur district except Bhagalpur Sadr and Madhipura where the rate is $15\frac{1}{2}$ per cent., which is also the rate in Purnea district. But a certain portion of the profits goes back to the members in the shape of dividend on shares held by them or in the shape of rebates for punctual repayment. Recently some old banks have reduced the rates of interest on loans for land improvement, irrigation purposes and seeds, etc., and the societies also have been advised to make corresponding reductions in their rates. Bhagalpur Central Bank and Banka Central Union for instances have fixed $7\frac{1}{2}$ per cent. for loans for irrigation and land improvement and the latter has fixed 8 per cent. for seed loans. Bhagalpur Central Bank has gone a step further in that it makes free advances to societies for seeds taken from the Agricultural Department and does not treat them as loans bearing interest.

I am not aware of any instance where the Imperial Bank of India or any joint stock bank has financed agriculture. As between co-operative societies and local *mahajans* it must be admitted that the latter predominate because the co-operative movement has not yet been able to touch even a fringe of the population in any subdivision.

The following table will show the percentage of co-operative societies to the total number of villages and that of their membership to the total agricultural families in the two districts comprising my circle. The figures of villages and families have been taken from the last census report of 1921 while the figures of the societies and their membership

have been taken from my last annual report for the year ending 31st December 1928 :—

	Bhagalpur district.	Purnea district.
1. Total number of villages agricultural credit ...	3,829	4,177
2. Number of co-operative societies agricultural credit	606	95
3. Percentage of societies to villages	15.8	2.3
4. Population supported by agriculture (exclusive of dependents)	941,220	586,421
5. Number of members in societies	13,547	1,514
6. Percentage of members to total population	1.4	.25

For the existing societies no extra capital is required. Central banks and central unions generally are now able to meet all their requirements by means of shares, deposits and reserves. In times of need there is the Provincial Bank to help them with loans and cash credit. If, however, an estimate is wanted for agricultural finance in general, whether in villages having co-operative societies or without them, I must confess it is not possible to form an accurate idea of the total amount of capital required for financing cultivation, for works of permanent improvements and for other special needs, for any particular subdivision or even a smaller unit without a careful and patient enquiry from village to village and house to house. But roughly speaking I would put the estimate for the Bhagalpur district at 2 crores and for Purnea at 1.75 crores. I have arrived at these figures by the following calculation. I find that the loans due by the members to their societies on the 31st December last stood at Rs. 13,67,539 in the Bhagalpur district and Rs. 1,76,708 in Purnea. These figures work out at about Rs. 100 per head in Bhagalpur and about Rs. 116 per head in Purnea. It is a fact that the members in the majority of the societies are not yet altogether free from outside debts. Assuming that these debts are equal to the debts which they owe to the societies in the Bhagalpur district and about half in Purnea, their total indebtedness comes to Rs. 27,35,078 in Bhagalpur and Rs. 2,65,062 in Purnea. The census report of 1921 shows the number of occupied houses in the Bhagalpur district as 349,780 and in Purnea as 381,172. Leaving out of account 5 per cent. of these as representing well-to-do families and another 5 per cent. representing non-agriculturists we can safely take the remainder as the indebted agricultural families. Thus the total indebtedness may be put down at Rs. 6,29,60,400 for Bhagalpur and Rs. 6,00,34,625 for Purnea. Assuming that three-fourths of these amounts represent the accumulated indebtedness of generations the estimate of capital required for agricultural purposes comes to Rs. 1,32,40,100 for Bhagalpur and Rs. 1,50,08,646 for Purnea. For works of permanent improvement Bhagalpur district would require about Rs. 50 or Rs. 60 lakhs to be spent mainly on irrigation projects in the southern portion where crops fail for want of rains every alternate year, as also for drainage schemes in the north Gangetic areas excluding the training of the Kosi river, which has been devastating Madhipura and Supaul subdivisions. In

Purnea about 25 lakhs may be needed for reclaiming waste land and curing sandy and marshy soils as also for embankments.

All the present systems of financing agriculture have their own defects but the co-operative system is the least defective. The unconscionable, high-handed, and heartless methods of the average run of the *mahajans*, such as those with whom the average agriculturist has got to deal, the exorbitant rates of interest charged, their compounding at six-monthly and annual rests, fraudulent book-keeping, lavish lending, indifference towards realisation until the debt gets too heavy and about to be time-barred and similar other features are a matter of common knowledge. In one word the *mahajan* lends money for the purpose of self-aggrandisement and has always his eye on the land of the borrower. He never bothers his head whether the money borrowed is used on productive purposes or whether the borrower makes any effort to repay the debt. Indeed an intelligent borrower is seldom the *mahajan's* favourite.

These defects do not exist in the co-operative system because co-operative banking is not a private profit-hunting capitalistic concern. But there are certain improvements in working, not in system, needed in order to enable the members to take full advantage of the facilities offered by it. At present there is a certain amount of red-tapism resulting in delays in the disposal of loan applications. Then the actual disbursement of the money also requires the attendance of at least three of the *panches* at the headquarters of the bank, which is regarded as a great inconvenience as it takes away at least three or four days of their time and more if the distance of the society is great. To remedy this defect we are now trying to introduce a system of cash credit for societies in lieu of short-term loans. This will greatly minimise the formalities through which every loan application has got to go. But this does not go far enough, and it is necessary to devise some means of bringing the money actually at the door of the members. I would suggest the substitution of cash credit for short-term loans even for the individual members of the societies, and the transference of adequate cash from the headquarters of the banks to the headquarters of the circle officers or branch banks in the interior. An iron safe may be kept in each centre and adequate arrangements made for watch and ward. The member requiring money within his sanctioned cash credit will then issue a cheque on the society and get a cheque on the Central Bank in return which he will cash at the circle office or the branch bank. If an office like this is established at suitable centres to cater to the needs of societies within a radius of ten miles, no member would feel any inconvenience in transacting business and financing would always be done in good time. The working of these detailed improvements, however, cannot be undertaken by a large majority of the Central Banks without some Government subsidies because their margin of profit is not high and cannot be raised without increasing their lending rates which would be a most retrograde step. There is absolutely no co-ordination among the various credit agencies but there is certainly some scope for co-ordination.

Question 2.—The smaller agriculturists are always so hard-pressed by the demands of their landlords or *mahajans* that they have to sell their crops from the farm either to them or to local grain dealers. The more substantial cultivators sell them to the *beparis* visiting their village or take them for sale to the nearest marts on pack bullocks or bullock carts. There are very few of them who have direct dealings with the grain exporting business-houses or their agents. Their produce reaches them only through a number of middlemen.

There are vast possibilities of improving marketing facilities for the produce of the agriculturists through co-operative efforts. I cannot conceive of a better agency than a co-operative organisation for this purpose because in every other form of organisation the chances of exploitation by a series of middlemen are bound to be present while under the co-operative system the profits will go back to the agriculturists themselves. I would suggest the formation of crop sale co-operative societies at suitable centres commanding villages within a radius of ten miles, preferably at the headquarters of circle offices or branch offices of central co-operative banks or of guarantee unions. With a net-work of such sale societies under expert supervision and proper facilities for information about daily rates and transport, the scheme for marketing produce will be the best suited to the benefit of the agriculturists.

So far as the average agriculturists are concerned there is hardly any facility existing for financing their produce during marketing. They sell them either on credit or on cash or in payments of a previous debt to the *beparis* and *mahajans*. Some *goladars* make advances against grains stocked. *Hundis* or bills of exchange are little known to the villagers and their use is confined to big merchants and dealers living in towns. Under the scheme suggested by me above the crop sale societies will have to be provided with adequate capital to make advances to the members against the grains warehoused for their emergent needs. For such of the members of the crop sale societies as are also members of primary credit societies it would be a good idea to make the receipts granted by the sale societies for goods stocked encashable at the primary credit societies or the central banks concerned.

Question 3.—Prices of lands for different kinds of crops vary in different localities according to the fertility of the soil, the rental, facilities for irrigation, labour, transport and communication. In some places the pressure of the population on the soil, custom of transfer, and amount of mutation fees are also determining factors. This is the case in normal sales. In forced sales either through want or in satisfaction of court decrees, the value goes down even to 25 per cent. of the normal. The average value of different classes of lands is given below :—

	Rs.	Rs.
(1) Paddy and Sugarcane	50 to 300 an acre.
(2) Rabi, Dofasla, Maize and Wheat	30 to 200 do.
(3) Tobacco, Potatoes, Chillies, Vegetables	...	100 to 400 do.
(4) Jute	75 to 150 do.

Question 4.—There is no legal impediment to mortgage of land and agricultural holdings in Bihar proper except where the custom of transfer of occupancy holdings is not recognised by the zamindars. I am not aware of conditions in Chota Nagpur and Orissa. At present the record-of-rights so far as tenancy is concerned is presumed to be correct only in regard to possession at the time when the record was prepared. There is no such legal presumption with regard to title. Revision of such records by the Settlement Department is made at very long intervals during which lots of changes take place in the tenancy and the holders thereof. The rent-receipts issued by the zamindars only give the name of the original holder even where portions have already been transferred. Some improvement in the record-of-rights so as to make it a real record-of-rights, title, and interest is urgently called for. As in Bengal an amendment may be made in the tenancy law of this province making transfer more easily recognisable by the landlord. In the record-of-rights, on the other hand, such transfers should be noted in each case on payment by the vendee or transferee of a certain fee to cover the cost of any extra establishment required.

No land mortgage bank or agricultural bank exists in this province for the provision of long-term credit to agriculturists. In the central co-operative banks mortgage of lands by members in favour of their societies is generally insisted upon, where the loan exceeds a certain maximum fixed by the banks, which is usually Rs. 100 or Rs. 200. The co-operative banks have been trying to provide long-term credit to the members but have not yet been able to extend the period beyond six or seven years principally because their deposits are received for shorter terms. Although fixed deposits for even one or two years have in a majority of cases been found in actual experience to have been renewed from year to year and as such may be regarded as more or less permanent deposits, technically they cannot be counted upon for the purpose of providing long-term credit to the societies. The bulk of the working capital of the co-operative banks is derived from deposits and loans from the Provincial Bank which are also repayable in four or five years. On the 31st December last the proportion of owned to borrowed capital in the banks of my circle was 1 : 4. At best therefore these banks can only invest their share capital and reserve fund in loans to societies for any long number of years. Instead of having a separate land mortgage bank and thus multiplying agencies for the finance of agriculture I think the best arrangement will be to secure long-term capital for the co-operative banks at cheaper rates than those at present obtaining by means of debentures to be floated by the Provincial Co-operative Bank redeemable in say 20 or 25 years. These debentures should be guaranteed by the Government both as regards interest as well as principal. There can be no question of any loss to Government as the ultimate investment of the money raised would be in loans to members secured by the mortgages of their lands. It will, however, be necessary to strengthen the supervisory staff employed by the Government for the proper conduct and control of the movement.

I suggest these means for the provision of long-term credit to the agriculturists. As for the landlords separate land mortgage banks on co-operative lines may be established. A combined organisation to serve the needs of both the landlords and tenants does not appear to my mind to be desirable. I would suggest the extension of co-operative societies in every village as early as possible. I would also suggest that the debenture bonds to be issued by the Provincial Bank should bear interest at 4 or $4\frac{1}{2}$ per cent. and the Provincial Bank should not charge more than 5 per cent. on its lendings to the central banks. The central banks can then reduce the rates on loans to societies to 9 per cent. and the latter on loans to their members to 12 per cent.

I do not know of any estimate of the existing indebtedness of the agricultural classes for any village in any district but I have attempted to give a rough idea in the foregoing paragraphs. According to that calculation the total indebtedness for the Bhagalpur district has been shown to be Rs. 6,29,60,400. It has also been shown that out of this only Rs. 13,67,539 is due to co-operative societies. About 4 or 5 lakhs of rupees would be due to Government. The balance may be taken to represent debts due to *mahajans* and indigenous bankers.

It is a fact that a large number of cultivators are being turned into tenants-at-will or day labourers through the process of enforcement of old debts and their landed properties are passing into the hands of their creditors. But this is not the case with the agriculturists who are members of co-operative societies, except in extremely rare cases of awards and liquidation. Any land purchased by a society in execution of award or in a certificate sale in liquidation cases is disposed of as quickly as possible and where the member concerned so wishes is reconveyed to him.

When the cultivator knows that the land is no longer his own tenancy but has been let out to him as *batai*, naturally it does take away from him the incentive to produce more and better crops.

(b) Subsidiary industries of the nature mentioned in the questionnaire are seldom met with among the average agriculturists on any extensive scale. Minor industries such as, fishing, goat-rearing, basket, rope and *chatai*-making and boat plying are resorted to by low-class cultivators. Plying bullock carts for hire is a means of subsidiary income also with the higher but poor class of cultivators. For the spare time of the agriculturists I would suggest the introduction of the following small industries a few of which may be taken up by each according to his social status, caste prejudices and aptitude :—

- (1) Rice-hulling, corn-grinding, flour-making, oil-pressing by means of small and cheap hand or paddle machines.
- (2) Vegetable and fruit gardening.
- (3) Hand-spinning, weaving and hosiery-making and embroidery and needlework.
- (4) Goat, sheep, pigeon and poultry-rearing, also blanket-making

- (5) Butter, ghee, and *dahi*-making.
- (6) Basket, rope and *chatai*-making.
- (7) Eri and bee-rearing.
- (8) Shopkeeping, haberdashery.

To encourage these industries propaganda and training on behalf of the Government departments concerned will have to be done both extensively and intensively. Where co-operative societies exist there will be no difficulty in financing these industries. In other villages the Industries or the Agricultural Department may make arrangements for supplying the necessary machines and equipments, seeds and manures, on credit or on hire-purchase system, as the case may be. There will not be much trouble in marketing the products of these industries because they will never be so large as not to be consumed within the locality. In any case of difficulty Government assistance in finding out or creating markets may be freely given.

Question 7.—Very few central co-operative banks have got relations of any kind with the Imperial Bank, the joint stock banks and the indigenous banks. The only connection which they have got is the lodging of their cash balance with them in current or saving banks accounts. The Imperial Bank of India has granted accommodation by way of cash credit to the Provincial Co-operative Bank to the extent of about 12 or 13 lakhs of rupees, against promissory notes and other approved securities.

Co-operative banks in my charge have absolutely no difficulty now in the matter of finance in regard to short-term capital. As regards long-term capital I have already stated in the foregoing paragraphs that the position is technically unsound because deposits for one to three or four years are employed in issuing loans for six years or seven years. But in actual practice these deposits have been found to be more or less of a permanent nature.

If the co-operative movement be extended to every village in each of the two districts in my charge and the entire existing outside indebtedness is to be taken over by the co-operative societies, I would require about 12 crores of rupees.

There is no competition in my area between the co-operative banks and the joint stock banks because the field of work is not common. In regard to rates of deposits also no competition is noticeable.

I have said before that the co-operative agency is the best conceivable for financing the agriculturists and this is the view accepted not only by the best brains of the country but also by a large majority of high Government officials. Even His Majesty the King-Emperor during his visit to this country gave expression to the same view in the following notable utterance :—

.....If the system of co-operation can be extended and utilised to the full I foresee a great and glorious future for the agricultural interests of this country."

The Royal Agricultural Commission have said that if co-operation fails the best hope of India fails. It is thus clear that the vast potentialities of the co-operative movement for the good of the agricultural population are undeniable. That being so it is not only desirable but urgently necessary that the growth of this movement should be stimulated not only by financial concessions but also by all possible ways of assistance on behalf of the Government and the public. The movement in this country owes its birth to Government initiative and for a long time yet it will have to depend upon Government support for its growth and stability. Financial aid is required not only in the shape of cheap loans for the supply of capital to the societies and the members but also in the shape of bounties and subsidies for propaganda organisation and the entertainment of an adequate, well-trained and well-equipped staff.

Besides the concessions already granted to the co-operative societies, I would suggest the following items :—

- (1) Permission may be accorded to the district boards and the municipalities to place their security deposits and other funds in the co-operative banks.
- (2) Exemption may be granted to the co-operative societies from paying searching fees in the Registration offices.
- (3) Copies of *khatians* may be issued free of cost from the Collectorate or inspection of such *khatians* may be permitted free to the officers of the central banks.
- (4) Award under section 43 (L) of Act II of 1912 may be permitted to be executed through certificate procedure.
- (5) Exemption from payment of full court-fees in certificate cases and substituting therefor the system obtaining in the Original Side of the Calcutta High Court, viz., the levy of only Rs. 10 as court-fee with the plaint, the balance to be recovered by the court from the judgment-debtor:

PART III.

In towns we have got joint stock banks, indigenous banks and bankers, loan offices, post-office savings bank, life insurance companies and central co-operative banks, where people, who can afford it, invest their savings either in shares or deposits. They also invest a portion in promissory notes and other Government securities as well as shares in industrial concerns. These are, however, confined to the educated wealthy class and businessmen. But there is a tendency even amongst these people to prefer investment in landed properties, as well as in money-lending. Investment of savings in banks and companies is unknown to the majority of the agriculturists while only a few of them take advantage of the existence of postal savings bank, co-operative societies or postal cash certificates. The most common form of investment with them is in the shape of purchase of land and money-lending. Investment in gold and silver ornaments is very rare and hoarding cash still more so.

The best possible means of encouraging thrift is the extension of co-operative societies in every village. These societies not only accept fixed and savings bank deposits but also exercise a restraining influence on their members and through them the non-members in matters of expenditure on ceremonials and festivities as well as litigation.

Additional Questions.

Question 1.—The answer is in the affirmative. The reasons are poverty and ignorance.

Question 2.—We have got branches of the Imperial Bank, the Allahabad Bank and the Benares Bank in parts of our province. They do attract savings but I am not aware whether they use their funds outside the province or not. If they use their surplus outside the province I do not see any objection to it.

Question 3.—I am not in favour of extending the banking business of the rural post offices in the manner suggested.

Question 4.—Pawning of gold and silver ornaments or other valuable movables is not done on any very large scale and I do not think any State assistance or interference is called for.

Question 5.—I cannot speak on this point from personal experience, but I have heard that village *mahajans* generally mix up trading transactions with loan accounts. Separation of these accounts does not appear to be a very effective remedy.

Question 7.—It may be possible, but it is not, in my opinion, desirable to set up licensed or registered money-lenders for financing agriculture or even small scale trade and industries among the rural population. I would reiterate that the extension of the co-operative movement is the only solution. If in any particular village a portion of the people object to joining a co-operative society, Government may declare the society itself as a licensed money-lender for doing business with the non-member population. I would not restrict lending in such cases to productive purposes only but extend it to all legal and moral purposes.

Question 8.—The answer is in the affirmative.

Question 9.—Small urban industries, retail traders and contractors obtain their finance from private *mahajans*. Here again there is a great scope for co-operative effort both in the direction of supplying cheap loans and marketing.

Question 10.—I have no information of the working of the Usurious Loans Act. Its strict application depends upon the personal views of the courts. The co-operative societies have been very effective in keeping down usury.

Oral Evidence.

Chairman : You are the Assistant Registrar of the Bhagalpur circle?—Yes.

Could you tell us what districts that covers?—Bhagalpur and Purnea.

You say that members of co-operative society are not generally allowed by central co-operative banks to take *takavi* loans. Is it your view that they should not be allowed to do so even in times of distress?—Yes.

What do the central banks do in such times?—Central banks find the necessary funds for the members of the society even in times of scarcity. In 1928 in Bhagalpur district Government sanctioned about Rs. 1 lakh or Rs. 2 lakhs for *takavi* loans; then it was decided by the central banks that this money had better be released for the use of those agriculturists who are not members of societies because that sum was insufficient to meet the needs of all. Throughout the whole of South Bhagalpur there was scarcity prevailing and that money was not considered sufficient to meet the requirements of the situation; whereas the members of co-operative societies had their own societies and banks to fall back upon, the non-members had nothing of the kind.

What is the rate of interest paid in Bhagalpur and what is the rate of interest paid in Purnea by the member to his primary society?—In Bhagalpur for the majority of banks it is $12\frac{1}{2}$ and in Purnea 15-10-0.

In times of scarcity Government is prepared to advance at $6\frac{1}{4}$ per cent. Is it not hardship to the members of your societies if they are not allowed to avail themselves of the special provision in times of distress?—Of course, the rate of interest makes some difference but the amount granted to each individual is so small that it will never help the members of co-operative societies. Ordinarily about Rs. 5 to Rs. 20 per head is allowed in the *takavi*. That is not sufficient for the needs of members and between the time of application and actual receipt of the loan a good deal of trouble arises and when the money actually comes into the hands of the tenants most of it is uselessly spent and probably the time for purchase of seed or transplantation is already over.

Is that your experience of the administration of *takavi* in 1928 in the Bhagalpur district?—I have no experience myself; that is the general complaint of the people.

Mr. Hodge : Is the average *takavi* loan Rs. 15 or Rs. 20?—Yes.

Professor Batheja : Do you think that this loan should be increased by Government?—This loan I consider, if it is to be useful, should be more carefully distributed. Estimates should be made beforehand of the actual requirements and the loan to be given to one individual should be in some ratio to the holding that he possesses.

Chairman : Are you not aware that in actual practice it is fixed in that way? Is it Rs. 5 an acre?—What I say is that it is not sufficient.

Professor Batheja : So that in a time of distress the *raiya*t has to go to two or three agencies for tiding over the difficulty?—Yes.

Do you think that it is a source of evil?—Yes.

Mr. Hodge : Do you agree that this *takavi* should remain as an emergency?—Yes, though I fancy that if the co-operative movement is extended according to our own plans probably in the distant future it will not be necessary for Government to make any such arrangement.

Professor Batheja : Do you think that the co-operative societies will be able to finance the *raiyat* in times of exceptional difficulties? Would you have the necessary finance?—Yes, it all depends on the amount of support the movement receives from Government.

Chairman : You contemplate Government making a special effort to give temporary finance to the central banks in any place where there is an emergency such as flood or famine?—Yes.

Professor Batheja : Would you advocate distribution of *takavi* to non-members also through the co-operative society?—Government have got their own agencies and I do not see why co-operative societies should be saddled with this responsibility. In fact in 1928 when Mr. Murphy was in charge of Bhagalpur he suggested that if the distribution of *takavi* loans could be done through co-operative societies Government would be saving some expenditure on the cost of establishment that it has got to employ for that purpose.

Did you agree to that suggestion?—No.

Mr. Hodge : Would you agree to the extent to which co-operative society members were concerned?—Yes.

Professor Batheja : Do you think exceptional borrowing of *raiyats* at a time of such distress is a fruitful cause of growth of indebtedness?—It adds to their difficulties. I know of cases where there have been floods in quick succession so that if after the first flood a man has borrowed some money for the purchase of seed and as soon as he has sown the seed in the land another flood comes and washes it away so that in the course of two or three months he had occasion to borrow about three times. That adds to his difficulties many times.

Chairman : Is not that a good reason for Government adopting a conservative policy of financing the *raiyat* in the event of agricultural calamity?—In any case these are exceptional seasons and for exceptional cases Government has to come to the rescue of the people.

Mr. Hodge : Is the *takavi* loan adequate to meet these exceptional situations?—It is not.

Chairman : You indicate that the *mahajan* sometimes has the first claim to purchase the crop at certain settled rates. When are these rates settled?—At the time when the money is advanced.

Have you seen any bonds?—No, I have not seen any. That is the information which I have got from the tenants that they are pledged to sell it at a fixed rate.

Could you suggest any reason why the *raiyats* should not have told us that when we held our enquiries?—I do not exactly remember whether any question was put to them. Even if they were asked they must have concealed the truth because of the presence of *mahajans*.

In what circumstances did you get this information?—I made enquiries in some places.

Mr. Hodge : Do you suggest that the cultivators are absolutely helpless and they have got no say in the determination of these rates at all?—There are certain occasions when they make a bargain beforehand and in such cases they are helpless. They cannot go beyond the contract.

Chairman : Is there any contract in writing?—No.

What remedy would the *mahajan* have if he did not sell at that particular rate?—He will stop further credit. If there is cash loan he will try to recover it.

Can you give any specific instance of that?—I do not recollect any specific instance just now.

You have given a very useful estimate of the total indebtedness of the population supported by agriculture exclusive of dependants. Where did you get that figure from?—From the last census report of 1921.

Is that all agriculturists or actual cultivators?—Actual cultivators.

You do not include the landless labourer or the rent receiver?—No.

You say that for works of permanent improvement Bhagalpur district would require about Rs. 50 to Rs. 60 lakhs to be spent mainly on irrigation projects. In what period do you expect that that could be spent?—About four or five years.

What class of irrigation projects are you contemplating?—Permanent canals and embankments.

Do you contemplate any canal scheme getting through in four or five years?—I understand some survey had been made during the time of Messrs. Lyall and Horsfield and there are some materials available.

Do you include in Rs. 50 to Rs. 60 lakhs the possibilities of irrigation with pumps?—Yes.

Do you foresee a very quick development in this line?—We have just made a beginning and if these few experiments prove successful I think they will gradually expand.

Mr. Hodge : Have you any experience of the canal system in that district at all?—Unfortunately there is no canal system. There are some small channels cut from the major rivers.

Is that widely utilised by the cultivators?—It is not very extensive. It extends through only one zamindari.

Chairman : For Purnea you estimate Rs. 25 lakhs for reclaiming waste land. What is your basis for that?—I have seen long strips of land covered with sands of *Kosi*.

In what particular part of Purnea?—I mean in Araria subdivision and some portions of Sadr Purnea also.

Do you expect that will ever be brought under plough?—I had a discussion with the Assistant Director of Agriculture in charge of Purnea

farm and he suggested that it was possible to reclaim these lands but they would take some time.

Do you think that Rs. 25 lakhs could be spent in the next ten years?—I am not sure, but I think the estimate is not very extravagant.

What is the new situation that has come to enable them to be economically reclaimed?—The whole trouble is that the people in the locality have not got the means, capital or skill required for the work, so that they cannot undertake this.

Is it not possible that the climate of Purnea is adverse to the prolonged agricultural labour that might be required for that?—It is adverse to human labour but with long patches of land I think we might use tractors.

Then the new factor would be the possibility of using tractors on it?—Yes.

You are very much in favour of this new scheme which the Co-operative Department is pushing for cash credit for the societies and you will go further than the scheme at present contemplated by actually giving cash into the charge of inspecting clerks or rather supervisors and circle officers?—Yes.

Has that been tried anywhere yet?—No. ...

Do you think that the class of men you are now getting for supervisors is fit to be trusted with that duty?—Yes, with very few exceptions.

Why do you think that Government subsidies would be required to introduce a scheme of that kind?—There are some banks which have not got sufficient capital and the profit is not sufficient to enable them to entertain sufficient staff.

Are there any banks which are making an experiment?—We have already introduced the circle system in some banks. There are some banks which cannot afford it.

But are there some banks which can afford it?—Yes.

Mr. Hodge : Have you had any experience of a co-operative sale society?—We had some sale societies before but they had to be closed down; firstly for want of business experience among the workers and secondly for want of honest workers.

And do you still think that there is field for this form of co-operative enterprise?—Yes, in spite of these failures we have again started new societies of that kind. One crop sale society in Banka was registered last year.

Professor Batheja : How do you propose to get over the difficulties you mention in the success of the co-operative societies?—We want some Government help.

How can Government help in honesty?—We have now got a permanent training institute at Sabour and there we are training young men and we expect they will be a better class of people.

How long will the training last?—Formerly it was three months now it has been raised to nine months.

Do you think that nine months' training will be sufficient to enable a man to compete with the *mahajans* who have made it their life-long business?—The training at Sabour will be supplemented by practical experience. We shall have some people specialised in sale societies, some in ordinary credit societies and some in stores' business.

Chairman : Do you contemplate starting some more stores on the same lines as in Delang in Puri?—Of course, we are not daunted by failures, we have to pick up experience from failures.

Do you think there is really a crying need for altering the existing methods of marketing by the establishment of these sale societies for ordinary produce?—Yes, I think so.

What are your grounds for believing that a very large amount of the profits of the agriculturist is being taken by the people who are at present performing these functions in the market?—We find that in spite of his best labour and hard toil the agriculturist does not get back even a fraction of the profits which would legitimately belong to him.

What do you mean by profits legitimately belonging to him?—He produces a crop which ordinarily he is compelled to sell to *mahajans* at low rates whereas people who are better off sell the same produce at a higher price.

Is it not a fact that a great deal of this marketing is done by the more thrifty *raiya*s themselves?—Yes.

Would you discourage thrifty *raiya*s from taking advantage of this opening?—Certainly not.

Professor Batheja : Would not the introduction of your sale society cut the ground under his feet?—He will join the sale society. A thrifty tenant has the advantage of selling his produce to the best advantage as he can wait and see how the market rises, whereas the man in need of money cannot wait.

Chairman : My point was that thrifty *raiya*s tended to become the small *bepari* and to supplement his profits from his fields by trading in grains which he thoroughly understood. Would not the effect of your sale societies be to oust that man from his enterprise?—I think it will affect him.

Do you think that would be a bad thing?—No, because I look after the greatest good of the greatest number.

Professor Batheja : Is the price paid for services of the middle-man excessive?—There are several middlemen, one man takes it to the town, sells it to the Marwari and the Marwari sells it to some big agent from Calcutta or other places.

Do you think that the price for the *bepari* services is excessive?—As between the Marwari and the actual producer there is a wide margin.

Do you agree that the Marwari and the village *bepari* perform essential services and these services have to be paid for?—They do so

in the absence of any better organised system. In the co-operative sale society the profits will go back to the cultivator.

Chairman : Will there be any profits?—Let us hope so.

Professor Batheja : Have there been any profits so far?—In some cases there have been.

Mr. Hodge : Do you see any way of eliminating the Marwaris?—We could at least eliminate the first middleman, the *bepari*.

Chairman : Do you contemplate the *raiya*s bringing in their own stuff to your *golas* or do you propose to employ people who would be practically *beparis*?—For the first few years they will have to bring their produce to the *golas*.

Will it not be costly?—They are doing so now.

Mr. Hodge : Is there any tendency on the part of the cultivators to combine in marketing their produce?—I am not aware of that.

Could they do it?—It will be quite possible.

By doing that do you think they will be able to eliminate the *bepari*?—Even now combination for a certain purpose is not unknown to the people but that does not give them any legal status.

Professor Batheja : You have made a suggestion that the receipts granted by the sale societies for goods should be negotiable at the primary credit societies or central banks. Suppose the sale society is working at a loss, what would be the security of the primary credit society or the central bank which had advanced money?—They will always have statements and returns from the sale society.

And suppose the sale society is not going on right lines, the central bank would refuse to advance money against receipts?—The central bank would issue instructions to the sale society not to grant receipts against goods.

How would the central bank enforce these instructions to the sale societies? Would you give control to the central banks over the sale societies?—They will be affiliated to the central banks and under their control.

Will the responsibility for the success of the sale societies lie on the central bank?—Yes.

Are you aware that where central banks have done this they have burnt fingers very badly? For instance, the Puri Central Bank?—I am not aware of any in my area. We are now in the stage of experiments and we are apt to commit mistakes.

Would you endanger the money of the *raiya*s?—It is not a question of endangering the money. In all experiments we have got to take some risk.

Do they not get advances even now from *goladars*?—They do.

Is that not fairly efficient?—There the *goladar* does not take the risk. If the produce is sold at a higher rate the profit goes to the *goladars*; in our system the profit or loss goes to the tenants.

You do not consider that the system through which goods are sold by the *goladars* is beneficial for the *raiya*s?—I do not think so.

Chairman : You say that some improvement in the record-of-rights is urgently called for. Is it your idea that entries in the record-of-rights should be final?—What I mean to say is that all changes as they occur may be noted down in the record-of-rights which is preserved in the collectorate on payment of certain fees.

Do you mean continuous maintenance of record-of-rights?—Yes.

Do you know that was tried in Orissa and was found far too expensive?—I have no experience of that. It is bound to be costly and I am not sure whether it is a practical proposition.

Would you not admit that you might make a thousand alterations in the record-of-rights in a certain period of which perhaps only ten would ever be used for the purpose that you are contemplating?—Yes.

Mr. Hodge : Do you think it would be safe to start land mortgage banks without this revised record-of-rights?—I have not said anything like that. I have, rather expressed myself against the idea of having land mortgage banks.

In the event of their being established, do you regard the correction of record-of-rights necessary?—I have not thought about that.

Chairman : At the same time you say that for landlords land mortgage banks should be established?—My idea is that small zamindars might combine and form co-operative societies and raise loans on the security of zamindari property.

You say on co-operative lines, what particular point of co-operative principles are you contemplating?—I am not contemplating the introduction of unlimited liability in this case. We shall restrict the rates of interest, rates of dividend and we shall also make provision for reserve fund.

Would not the co-operative principle be practically limited to ensuring, by some means or other, that every borrower had some say in the control of the banks?—Yes.

Do you think that would be secured if you insisted on every borrower becoming shareholder to a certain extent?—Yes.

Would you limit his liability for the debts of the bank, should it unfortunately have to be liquidated, to the amount of his share?—A certain multiple of the share.

What multiple should it be?—That would depend on the amount of capital required. I would be inclined to put it at about five times.

Professor Batheja : What do you think would be the capital required for giving long-term loans to zamindars in your circle for Bhagalpur?—It is not possible to form a very accurate estimate. But the capital required would be very very large.

Would it be more than a crore?—Near about a crore. There are zamindars in Bhagalpur who are anxious to form co-operative societies.

There are Ghatwals in the Santal Parganas and elsewhere who made an application for having co-operative societies for their benefit but the application had to be rejected because they have not got the right of selling their zamindari.

Would you expect anyone to buy debenture loan bonds issued by the Provincial Bank at 4 or $4\frac{1}{2}$ per cent. interest?—Just as people are now buying the Calcutta Port Trust debentures.

At what rate?—I am not aware of the present rate. It is perhaps 5 or $5\frac{1}{2}$ per cent. but in any case the rates are not higher than that.

Chairman: You say there would be great difficulty in financing these long-term loans?—Yes. In that case we shall have to do it very slowly.

Suppose the Provincial Bank could raise at $5\frac{1}{2}$ per cent., what do you think it could safely pass on this money to the central banks?—At $6\frac{1}{2}$ per cent.

And the central banks?—They require at least a margin of $4\frac{1}{2}$ per cent.

And the societies?—They require 3 per cent. Unless we get the money cheaper, we cannot take up long-term loans.

Mr. Hodge: That is through the present co-operative machinery?—Yes.

Is it because there are too many middlemen in the co-operative movement?—There are middlemen but they are in the shape of instructors and not profit-hunters.

Do you not think it would be better to have a separate agency?—I have expressed myself against the idea of having too many agencies.

Is not short-term different from long-term loans?—It is the difference of shape.

Chairman: Your calculation of the total indebtedness for the Bhagalpur district would indicate that the indebtedness to co-operative societies is about 2 per cent. of the whole?—Yes.

Do you think that that is about the ratio between co-operative lending and lending by other agencies to the agriculturists throughout the province?—I have not worked out the figures for the whole province.

Would it not be very far different?—It might be a little more or less.

Professor Batheja: In order to drive out the *mahajans* completely from Bhagalpur, would you require more than Rs. 6 crores?—Yes, for one district.

And granting that the Bhagalpur district is typical, would you require about Rs. 125 crores for the whole Province?—Bhagalpur district cannot be typical. Patna and Gaya are richer, Purnea is itself richer than Bhagalpur.

Would you require about Rs. 100 crores?—Yes.

Could you raise Rs. 100 crores during the next ten years?—I am not sure.

Are you aware that even the Government of India found some difficulty in raising Rs. 15 crores?—In that case we shall have to do it by and by.

Would you have to depend on the *mahajan* for sometime?—Yes.

Chairman : You say that small urban industries obtain their finance from private *mahajans* and that there is scope for co-operative efforts for supplying cheap lines of marketing. What are you particularly thinking of?—I might just give you one instance. We have got a bell-metal co-operative society at Bhagalpur. There are certain families of bell-metal workers who depend on the needs of the bazar and the *mahajans*. For a number of years they wanted to get out of their clutches but could not. So they combined and formed a co-operative society. We estimated their indebtedness to the Marwaris to whom they used to supply their finished goods and from whom they got their raw materials and we paid them off. Then we calculated the requirements of each family for the daily produce of finished articles and we got our raw material direct from Calcutta. They all brought their finished goods to the society's office. There they are sold in wholesale and retail also.

Who buys wholesale from society?—Merchants of other places such as Bengal and the United Provinces.

Do you think that with the help of the organisation of the Co-operative Department you can find markets for them?—Yes.

Where do the Bhagalpur brass merchants get their stock from?—Their business is now practically struck up. They are only waiting to see when our venture collapses. I am trying to find wholesale markets elsewhere.

Have you not yet got a traders' bank in Bhagalpur?—No.

You know what I am speaking of? There are two in Patna and one in Muzaffarpur?—Yes.

Is there any opening for such a trader's bank in Bhagalpur?—Yes, for the small traders.

Mr. Hodge : What security would the co-operative society ask from the trader?—Of course their liability will always be limited. The advance made to them will be in some proportion to the amount of share capital.

Would they insist on landed security?—We cannot. We certainly insist on personal security as well as the security of some other member.

Chairman : As a rule, would you select first some substantial men who had assets?—Yes.

But you would not shut the doors to genuine borrowers who have not got landed security to offer?—No.

I take it the original members of such a society would have a considerable say on the admission of further members to it so that you would

be gradually taking in people for whose personal honesty and industry the original members can vouch?—Yes.

Mr. Hodge : Do you think that the co-operative movement through these traders' societies can meet the needs of the small traders?—I hope it will.

Chairman : Can you tell us how long the Patna Peoples Banks have been running?—For about eight or nine years.

Professor Batheja : In what respect has the Bankipur Traders' Bank been a success?—They have been able to do very good business and have got their own building.

Was there not some difficulty owing to excess advance by the society to some demonstrator in the B. N. College?—We should not take note of these exceptional cases.

Was the bank in a serious difficulty?—I do not know.

Mr. Hodge : Is it your considered opinion that the co-operative movement could meet the needs of the small traders?—Yes. Provided we have got sufficient capital and supervision, there is no reason why they will not succeed.

Can a co-operative society advance to a small rice mill?—Yes, it can if it is organized on co-operative lines. I was in temporary charge of the Moughyr circle. I had to visit Sahebganj in Santal Parganas. We have got the Paharias there who grow *sabai* grass and it struck me it could very well have a co-operative paper factory.

Professor Batheja : Does not running a paper mill require technical ability of a very high order?—Yes it does. We shall get men from England and America.

Would you be able to compete with the large scale paper mills?—We shall make a beginning and supply the needs of the province.

Do you think you will make a large profit?—Yes, I do. We shall have the monopoly of *sabai* grass.

In view of your statement that the *mahajan* cannot be eliminated in the near future, do you still persist in the opinion that the co-operative movement is the only solution?—What I meant was that we cannot remove the indebtedness of the tenants in the near future.

What is your idea of the near future?—I mean about 10 to 20 years unless Government comes to our rescue.

Chairman : Do you think it will cover the whole ground within the next 10 or 20 years?—Yes, if Government and the people combine and make efforts, we can.

It would have to expand to about forty times the present size. Do you think you can possibly train the required number of bank managers, inspecting clerks, auditors and so on within ten years?—Yes. The number of recruits that are being trained are not absorbed within two or

three years. We have got 100 supervisors receiving training and I am not sure whether even one-tenth would be immediately employed.

Is there sufficient demand for starting new societies?—There is a genuine demand for more and more societies in every district but the department had to stay its hands.

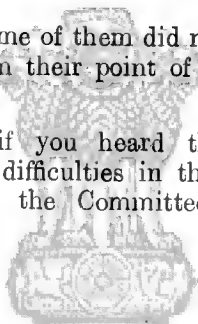
Professor Batheja : You have said that Government may under certain circumstances declare co-operative societies licensed money-lenders for the purpose of advancing money to non-members. If such a license is given to co-operative societies, do you not think that the existing members of the co-operative societies would tend to leave the society and become non-members?—I think our members have got greater faith in the co-operative society and they will not be weaned away.

Do you think the elasticity of the *mahajan's* easy borrowing without being committed to the principle of joint liability will not be sufficient inducement for them to borrow somewhere else?—That might have a deterrent effect on those who have not yet come to the fold of co-operative societies but those who are already members of the societies would not like to get out of the societies.

Are you aware that there are some members who joined the co-operative societies because they could not get money anywhere else?—Yes, I know.

Are you also aware that some of them did not regard the co-operative societies exactly a success from their point of view?—That is a matter of opinion.

Would you be surprised if you heard that certain members of co-operative societies did find difficulties in the co-operative movement when giving evidence before the Committee?—I submit there are difficulties.



सत्यमेव जयते

Monday, December 9, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. HODGE.

Rai Bahadur BANSIDHAR
DHANDHANIA.

Mr. BATHEJA.

Rai Bahadur RADHA KRISHNA
JALAN.

Mr. C. J. SAWHNEY, Industrial Engineer, Bihar and Orissa.

SUMMARY OF SUGGESTIONS.

Province is very rich in its natural resources and innumerable industries (as per list given) can be developed if well organised.

To organise the industries the following things are necessary :—

1. Commercial Museum under the Department of Industries.
2. Exhibitions and travelling exhibitions.
3. Research workshop under the Department of Industries to do the experimental work for different industries in the province and to train workmen.
4. Demonstration parties of the Department to demonstrate the results of experiments.
5. Propaganda work to interest people in industries.
6. To start provincial limited concern to supply raw material and sell finished articles of workers at markets in and outside the province.
7. To start subsidiary companies for different industries to watch the local interest of workers.
8. To supply the improved tools on hire-purchase system to work on the securities of these companies.
9. Government to save the industries from unfair foreign competition.

NEED OF INDUSTRIES.

The twentieth century is an age of miracles; wonderful scientific achievements have so far pervaded the world that it seems absolutely

useless to look to the past which may fitly be called the repose of the mad. It is believed these days that humanity has fast progressed and is far far above that height of improvement on which it took its stand in ancient days.

In the present world the greatness of a country is best understood by its industrial greatness. The industries of a country are the chief factors which determine the monetary greatness of a country which is a just name for apparent greatness. It is clear that the main chain of causes that a certain country is behind another is that of these concerning the industries thereof. The industries answer for the pecuniary condition of the population and it is the industries that answer the financial condition of the country.

However only the work of industrial organisation does not definitely point towards any line of actions. There have been so many variations in the industries of the world and so many systems have been suggested that it will certainly be unwise to give an aggregate of them all. For different countries, different lines of actions have been recommended, best suited to the climate of the place and natural resources. In general all the existing industries can be classified mainly into two broad subdivisions—cottage industries and factory system. Each is different system in itself, each is of an equal importance. Each promises wealth and power to the countries in which it thrives. Each tends towards adding immensely to the stores of the country.

But each has got quite different application and each runs on quite different rails. Each is fraught with some advantages and disadvantages which vary as the case may be. All the countries of note have already decided what path to tread upon. As for example England and America have factory system with a firm grip, while other countries of Europe and Asia like Japan and China are following both. Bihar and Orissa has got an industrial scope quite different from the other countries. It admits of various considerations.

In the first place our province is essentially an agricultural country. It is mostly a land of the agriculturists and is one whose natural resources are very rich. The rich plains washed by the Himalayan rivers surpass all the provinces in their natural fertility. The forest products of the province can stand in competition with those of any other country of the world. With all these this province is a backward country to-day. The people are extremely poor and it will not be wrong to say that they are among the poorest of the world. With such natural resources there is no reason why the province should be so backward and why the people should be living on the verge of starvation as most of them actually do. By close inspection into the affairs of the province and a comprehensive survey of economical conditions thereof it appears that the reason of this grinding poverty is nothing but the absence of organised industries in the province. There is total absence of the spirit of true industrialism or industrial activities

and economic state of the people as a whole is deplorable as compared with that of the people in other provinces. It may be fairly stated that the province is suffering from a low level of industries and a low standard of living and earning; among all the provinces of India Bihar and Orissa is the least industrially organised.

COTTAGE INDUSTRIES VERSUS FACTORY SYSTEM.

It will not be out of place to mention how those different circumstances invite different courses. The course which is adopted in one province may or may not best suit another. Owing to climatic conditions, the national tradition, the character of natural resources, the line of industrial development may not be the same in Bihar and Orissa as in Madras. It is a known fact that no special industry can thrive in that country which proves barren for that particular industry.

Bihar and Orissa is a land of villages and her social and economical environments specially adapt her to cottage system of production. Imagining the vastness of population and system of residence one can easily say that cottage system of industries is the only system which can be of benefit to the natives of the province. No doubt, the factory system may be apparently very very inviting but from inside it may turn to be very very deceptive and illusive. In fact it is so. The outside of factory system is coated with sweetest honey while there lies at the bottom the most bitter poison preserved.

Now it is to be shown in what respect cottage system is superior to the factory system. The cottage industries have some characteristic advantages of their own, of which the workshops lack and for which the regeneration of them is particularly welcome.

(1) They serve as by occupation to agriculture :—

Every year the cultivators remain unoccupied for several months after their agricultural operations are over, and during these months they can devote themselves to some subsidiary industries. These industries become usually the second string in the bow of agriculturists. This process of providing employment to the farmers in their leisure assures much of wealth to the country and promises a happy life to farmers.

(2) They can utilise a great deal of perishable labour. The industry being carried on in the midst of family the labourer can devote more time than they can in a factory. It is well known that a man applies himself to his work closer at his own house than he does at another place, for with the former is associated the question of his own self while in the latter case he thinks of somehow or other discharging the duties that have been thrust upon him regardless of its taking any turn.

(3) They create a moral atmosphere more congenial to human sentiments which are absent in the case of factory labour. In the

factories the labourers have seldom any consideration for morality. Their spirits are all drowned and their soul is trampled into abject subjugation. They are devoid of all sorts of human sentiments and emotions. But quite reverse is the case with cottage industries. There a man finds enough field for his moral development and spiritual acquisition. There he can try to refill the mould of good and great.

(4) Factory system necessitates work to be done at certain time and certain places which are not always congenial and sanitary. Infectious diseases from the material used and contagious diseases from persons employed have been found to spread in many factories. Besides machinery and mechanical power also endangers life and limb of workers.

The factory has thus given rise to problems of sickness and accidents.

(5) The most serious problem of modern industrialism is unemployment. The question of unemployment is growing to be most perplexing problem in countries other than India where it is up to this time being neglected.

There are two important reasons why the evil effects of unemployment have not appeared to the same extent in India as in western countries. The first that a large number of factory workers still have homes and some time even farms in the country. In case of unemployment in the city they go to the country and find something else to do; and the second that most of the workers live in the joint family system where the incomes of all earning members are combined together for the household expenditure. The mutual help often tides some member over periodical unemployment. But gradually the working classes are losing their homesteads and farm lands and joint family system also breaking down. Sooner or later unemployment will be as serious a problem in India as in other countries. No solution has yet been found for unemployment. It is by far the greatest evil that factory system breeds.

(6) The presence of children in factories has given rise to several serious problems. Both the nature of the work done and the physical and social environments are detrimental to the physical, intellectual and moral developments of children. This tells upon their health and they fall easy preys to the sickness.

(7) The employment of women in factories has given rise to several difficulties. Nature and condition of work has subjected the women to moral and physical deterioration on one hand and their continuous absence from home has affected the home life and specially the welfare of the children on the other.

(8) Moreover excessive employment of women and girls in the mills mitigates against the instinct of domesticity. Want of home comforts and relaxation also helps the demoralization of men and addicts them to immoral life and drink habits. Further the careless and hurried

preparation and consumption of food invariably affects the digestive organs.

Mothers who bring baby in-arms to the mill premises often drug them with opium to keep them quiet. Women are not disallowed to work before confinement and it is not rare that children are born in mill premises. Women also work in the factories immediately after confinement. All these tell heavily on the vigour and vitality of children (the future nation). In fact women labour in the mills and factories is getting brutalized and degraded.

(9) Factories make rich more rich and poor more poor hence arises disputes among capital and labour.

In addition to the moral atmosphere which cottage industries create the system of production has got certain peculiar advantages of its own which make it possible to compete successfully with the tremendous economics of large scale production. These advantages may be enumerated as follows :—

- (1) The proximity of the market give an additional advantage to the cottage producers.
- (2) When the work is carried on in the houses of workers they can afford to work long hours in consideration of low remuneration.
- (3) The labour of women and children becomes available to the producer without any additional cost.
- (4) When the seasonal demand for agricultural labour is over a good deal of unemployed labour becomes available to the producer at a very low rates of wages.
- (5) There are certain classes in provinces who are treated as low castes; their occupation is only to cut crops twice a year for agriculturists. Cottage industries can provide regular occupation for them.
- (6) *Bhadralok* classes who think below dignity to touch plough or cut crops can make their livings on cottage industries.
- (7) Students during their studies can make their livings by working on these industries in their leisure hours.
- (8) Young men after passing their university examinations seek after jobs; when unable to get any generally perish their lives aimlessly. If they revert to cottage industries their lives will be saved.
- (9) It finds occupation and livelihood for *purdahnashin* widows and ladies who cannot support themselves in any other way.
- (10) In Hindu families it is only the adult male members who earn and all the family including ladies, boys, girls and old men depend on one man's earning. Earning capacity of a family can be much increased by the introduction of

cottage industries. Any and every member of the family becomes an earning party.

- (11) Where the demand for an article is considerable, steady and continuous the factories because of the economies of large scale production capture the field but where the demand is seasonal and for specialized products according to the social, religious and communal habit of people the scope and possibilities of cottage industries become wide and far-reaching.
- (12) Where the cottage production is more durable, artistic and cheaper than machine-made goods, it is to state that to meet all such cases the cottage industries should prosper.

HOW TO ENCOURAGE COTTAGE INDUSTRIES.

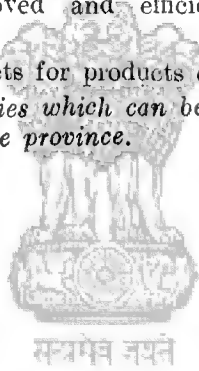
- (1) Education of craftsmen for artisan conservation, lack of ambitions and present inabilities to appreciate a higher standard of living is emphatically true.
 - (2) Training of master workmen.
 - (3) Financial help to cottage workers.
 - (4) Artistic industries and efforts for their developments.
 - (5) Introduction of improved and efficient tools and hand machines.
 - (6) The provision of markets for products of cottage industries
- List of a few cottage industries which can be easily developed in the province.*

(a) Group I—

1. Poultry-farming.
2. Bees-rearing.
3. Piggery.
4. Cattle-breeding.
5. Horse-breeding.
6. Sheep-breeding.
7. Rabbit-breeding.

(b) Group II—

1. Egg-preserving.
2. Feather-preserving.
3. Feather-industry.
4. Brush-making.
5. Dairy-farming.
6. Bone-crushing.
7. Horn industry.
8. Tanning.



9. Leather goods manufacturing and shoe-making
10. Wool-weaving and spinning, etc.
11. Fur-curing and preserving.
12. Taxidermy.
13. Fruit-preserving.
14. Fruit-drying.
15. Flowers-distilling.
16. Flowers-drying.
17. Lac-collecting.
18. Silk-rearing.
19. Gums collections.
20. Fishing.
21. Fish-preserving.
22. Sugar-making.

(c) Group III—

1. Paddy-husking.
2. Grain-crushing.
3. Cotton-ginning and spinning and weaving.
4. Jute-spinning and weaving.
5. Rope-making.
6. Oil extraction.
7. Basketry.
8. Grass-matting.
9. Chick-manufacturing.
10. Fibre-spinning.
11. Shellac industry.

Industries—Group IV—

1. Carpentry for making agricultural tools and houses.
2. Blacksmithy for agricultural tools.
3. Brick-laying for housing.
4. Ceiling tile-manufacturing.
5. Lime-burning.
6. Pottery works.
7. Charcoal-burning.
8. Brass and bell metal utensil-manufacturing
9. Gold and silver smithy.
10. Bangles-manufacturing.
11. Tailoring.

12. Soap-manufacturing.
13. Dyeing.
14. Salt and saltpetre-refining.
15. Mother of pearls collection.
16. Imitation pearl-rearing.

For Urban needs.

1. Toy manufacturing—
 - (a) Paper machine toys.
 - (b) Celluloid toys.
 - (c) Metal toys.
 - (d) Terracotta toys.
 - (e) Soft toys.
 - (f) Mechanical toys.
 - (g) Wooden toys.
2. Sport goods.
3. Brass, ornamental and scientific apparatus.
4. Cutlery goods.
5. Furniture manufacturing.
6. China paper decorations.
7. Japanese veneer chicks.
8. Paintings.
9. Stencil paintings.
10. Ornamental twine-manufacturing.
11. Gramophone manufacturing.
12. Umbrella-manufacturing and stick manufacturing.
13. Pushmobile-manufacturing.
14. Perambulator-manufacturing.
15. Coach-building.
16. French-polishing.
17. Ornamental clay-modelling.
18. Plaster of Paris industry, such as—
 - (a) toys;
 - (b) chalk pencil;
 - (c) Bullions stick chalk;
 - (d) boot blanco;
 - (e) distempers;
 - (f) school crayons;

- (g) slate pencils;
 - (h) flannel-cleaning balls, etc., etc.
 - 19. Sola hat-manufacturing.
 - 20. Cap-manufacturing.
 - 21. Fancy leather goods manufacturing.
 - 22. Horn goods.
 - 23. Ivory goods.
 - 24. Celluloid industry.
- Hundreds of side industries in this line such as—
- (a) Pen-holders manufacturing.
 - (b) Paper cutters manufacturing, etc., etc.
 - 25. Cigarette and cigar-manufacturing.
 - 26. Perfumery and toilet requisites-manufacturing.
 - 27. Glass-blowing.
 - 28. Porecelain works.
 - 29. Light metal-casting, such as decorations of military and railway employer's dress, etc.
 - 30. Cement industry such as—
 - (a) tiles,
 - (b) building ornamentation;
 - (c) bricks;
 - (d) statue and toys.
 - 31. Paper machine industry, such as—
 - (a) wall boards;
 - (b) tea trays;
 - (c) small toilet boxes;
 - (d) vanity boxes;
 - (e) handkerchief and tie boxes;
 - (f) ornamental ceiling;
 - (g) ornamental wall boards.
 - 32. Sheet metal works, such as—
 - (a) aluminium wares;
 - (b) trunk-manufacturing;
 - (c) furniture;
 - (d) utensils.
 - 33. Steel wire industry, such as—
 - (a) chairs;
 - (b) racks;
 - (c) perambulators;

- (d) flower pots;
- (e) cages, etc.
- 34. Fibre industry, such as—
 - (a) suit cases;
 - (b) cabinet boxes;
 - (c) topee boxes, etc.
- 35. Hosiery.
- 36. Embroidery.
- 37. Carpet and durry-manufacturing.
- 38. Lacquered goods.
- 39. Cane industry, such as—
 - (a) chairs;
 - (b) boxes, etc.
- 40. Electric goods-manufacturing.
- 41. Button-manufacturing
- 42. Shunk industry.
- 43. Gut-manufacturing.
- 44. Glue and glutin-manufacturing.
- 45. Sugar-making.
- 46. Sweet-manufacturing.
- 47. Mica industry.
- 48. Printing.
- 49. Litho printing.
- 50. Rubber stamp-making.
- 51. Engraving.
- 52. Etching.
- 53. Staining glass.
- 54. Photography.
- 55. Picture-painting.
- 56. Picture frame-manufacturing.
- 57. Silk shade-manufacturing.
- 58. Sculpture, statuary, etc., etc.



Practically all the abovenamed industries are combination of industries and, if subdivided, number will reach to thousands. For example toilet requisite is not one industry but combination of at least one hundred industries. Such as hair oil, hair tonic, hair lotions, hair cosmetics, hair removers, etc. Now hair tonics are dozens in number. Similarly sport goods consist of at least hundred industries. If I try to name all the new industries which can be developed in this province in detail it will require a book of very big volume. In brief I can

simply say that, there is a very big scope of industrial development in the province and, if well organised, every child of the province can be well provided to make his living decently.

A very few of the above industries still exist in the province, but they are in such a bad position that it makes them negligible.

HOW TO DEVELOP.

To develop any industry there are five important problems to be solved. Until all these are solved simultaneously there is no possibility of developing any industry, viz.—

- (1) What to manufacture.
- (2) How to manufacture.
- (3) How to finance.
- (4) How to sell.
- (5) Where to sell.

What to manufacture.—Masses are quite ignorant of development of industries and foreign competitions. They are living in remote villages and have got no means to study the present requirements and present trend of mind and fashion. What a bell-metal worker, living 15 miles off from railway station in Balkati, knows that cheap aluminium ware is taking place of crude utensils which he is making. At the same time it is not in his knowledge that a dining room gong which is also hand-made is being sold fifty times the price of metal and he can very easily manufacture it, if given a little training.

Similarly a brass worker does not know that Chinese crockery is taking place of his brass utensils but at the same time if he manufactures flower pots and other dining room decorations he can earn twenty times his present income.

Similarly a Dusadh does not know that for a leg of a pig from Australia a farmer is getting Rs. 25 while his whole pig is worth Rs. 2.

(a) To solve the above problem I have suggested to the Industries Department to open a commercial museum here in Patna attached to engineering section of the Cottage Industries Institute. There sample of all goods imported and their different stages of manufacture, tools required for manufacturing, raw material of province and price of raw material and price of finished imported goods and samples of goods at present manufactured in the province be represented.

(b) From time to time bulletin be issued in vernaculars describing how to manufacture different articles.

(c) Prizes be offered to copy different imported goods from time to time.

(d) Demonstrators of Industries Department should approach the cottage workers and explain them the present requirements and how to manufacture them.

(e) There should be travelling exhibitioners explaining particular industry, it should travel through the villages explaining the full details and selling the manufactured articles of artisans of that particular industry at different places. All the exhibitions and museums can be made self-supporting in course of time by charging commission on sale of articles. All the above scheme will cost Rs. 10,000 in the first year and Rs. 5,000 every year, for three subsequent years and then it will be self-supporting.

How to manufacture.—The workers being usually uneducated, without the knowledge of anything regarding their trade except what can be acquired locally. Their lack of education deprives them access even to the most elementary technical literature and they can be influenced only by a demonstration in their own neighbourhood.

For general industrial progress the manufacturers in India must be in a position to make use of the results of work done elsewhere, but to apply them to local conditions is often by no means easy. In some instances the information available is designedly left incomplete and gaps have to be filled in by trials and experiments, while the adoption of methods and processes to Indian conditions and to Indian material often involves research work of a completely difficult character. Between the first stage of the inception of an industrial undertaking and its actual realization there is usually a necessity for scientific and expert control. Much money in the past would have been saved if the importance of these preliminary investigations had been realised. No firm can afford to risk the cost of employing the various experts so required in an uncertain venture. Industrial schools are defective instrument of education owing to the non-commercial conditions under which it must necessarily be carried on. The craftsman who makes his living as a cottage worker requires a different and somewhat more elastic training than the craftsman who becomes a unit in an organised industry. In the latter more specialisation is usually rendered and the man will have to work under conditions very different from those which can be obtained in a school of handicrafts, where it is difficult to maintain the description of a workshop to attach great importance to what may be termed commercial considerations. To meet the above demand I suggest that the workshop section of the Cottage Industries Institute be developed to research workshop with the addition of machinery worth Rs. 20,000 only.

Here the experiments will be carried on for different industries. Result will be published in small bulletins in vernacular. Appropriate tools will be designed, made and introduced in masses through demonstration parties, who will travel from village to village demonstrating the new tools and methods introduced. Samples of imported goods will be copied and standard marked for further manufacturing in the province. Regular classes will be organised in the workshop to train master craftsman and students from different parts of the province, for which a special prospectus should be issued by the Industries Department.

Students trained here will be able to introduce new industries in different localities with the help of the Department demonstrators.

How to finance.—Before discussing how to finance, one should know what are the financial needs of cottage workers or what for they require finance. Their needs are as follows :—

1. Experimental work.
2. Supply of tools for their trade and improved tools according to the present advancement.
3. Supply of raw material.
4. Their family maintenance.
5. To sell their finished articles.

Before discussing how to finance the above needs one should see in how many ways finance can be made available.

1. Grant of loans under the State Aid Act.
2. Hire-purchase system of tools.
3. Co-operative society system.
4. Through middlemen or bankers.
5. Industrial banks.
6. Joint stock companies.

(1) As for experimental work it cannot be done through any other agency except Industries Department of Government as discussed before. The Department of Industries should have research workshop for the experiments and results advertised by bulletins in vernaculars, by demonstration and other propaganda work.

(2) *Supply of tools or improved tools.*—These can be supplied under hire-purchase system under the State Aid Act. But these tools are generally of very little value and number of applicants will be so great that the Department will require a very big staff to collect the instalments and it will make it practically impossible to manage. Secondly procedure is very lengthy and cottage workers cannot wait so long to take any benefit through the Department. Thirdly the cottage worker being illiterate and shy, they cannot possibly approach official for it. Only practical remedy for this that either Industrial Co-operative Society or any joint stock company should take the tools from the Government Department on hire-purchase system at its own risk and distribute them among workers and collect the instalments I will discuss its possibility further.

(3) *Supply of raw material.*—This can be accomplished through following agencies :—

- (1) Granting the cottage workers loans through Government State Aid Act.
- (2) Co-operative banks.
- (3) Industrial banks.

(4) Money-lenders or business men.

(5) Joint stock companies.

Granting of cash loans have following defects :—

Firstly they have no property to offer security and in case of their failure to pay back the money there are no sources to fall back upon.

Secondly generally these people have got bad habits of drinking or spending the money lavishly on marriages or other ceremonies. Hence they will spend off the money on these habits instead of buying raw material for their industries.

Thirdly good raw materials are not available in their approach and if any business man is keeping some stock in village, he will charge exorbitant price.

Fourthly to lend them money through any Government agency is next to impossible for the reason discussed before, viz., trouble in recollection; too much officialdom in Government agencies to make them fear to approach; lengthy process. In reality granting loan to cottage workers through any agency is to increase an evil.

(4) Distributing the raw material through following agencies :—

(a) Through co-operative societies. These have failed in past in this respect for the reasons noted below.

(i) Lack of technical knowledge in the persons in charge of societies.

(ii) Non-co-operation between industrial and co-operative departments.

(iii) Lack of business knowledge.

(iv) Unscrupulous habits of workers of receiving the raw material and to supply the goods to other *mahajans* and keeping societies in suspense for a very long time.

(v) No standardisation of goods; hence inability of societies to sell the goods by advertisement, or at any other market except at the place where show room is existed and there local demand being very limited, societies have got huge unsaleable stocks.

(vi) Too much officialdom in co-operative system and lack of sympathy with workers. All the above defects are unrectifiable at present. Co-operative system as at present is all right for agriculture but cannot prove useful for industries under the present conditions.

(b) Through business men or so-called money-lenders and middlemen.

These are generally known as evil for agriculturist or cottage worker. But in my opinion it is not always the case, at some places

these have found as boons. For instance, Shivder Singh at Sialkot. He was the first man to start manufacturing of sport goods on cottage system now more than 60 villages and 20 thousand persons are in the industry. Sialkot industry is controlling all markets of India and Burmah and has got very big export business. It is due to one man and so-called middleman. Present brass industries of Delhi and Moradabad are flourishing only due to these middlemen, who are supplying the workers raw material and buying their finished goods. Taking our province, Bhagalpur silk industry is only due to a few Marwari business men there. If to-day they stop supply raw material or buying finished articles, weavers there will starve. It is a fact some business people exploit poor workers very badly and loot them right and left. But there is no help to it. Until masses are educated these things will occur. There is no guarantee that a manager of a co-operative society will not loot the workers by unfair means. This is law of nature, weak are always exploited by strong and wise people take benefit of the ignorance of fools. Strong nations exploit weak nations. No possible industry of the world can be done single-handed. Some industries are to pass in the hands of number of workers before it is a saleable article. For example, electroplated ware must pass through the hands of moulder, turner, polisher and electroplater before it can be put in market. Workmen here are not so much educated so that they may combine. Hence some middleman is required who should manage this division of labour and pay the wages of workman every evening as they cannot afford to wait for a day even.

Secondly a worker cannot manage the purchase of raw material, manufacture of goods and sale of goods all in one. That means his efficiency of work will be reduced to one-third.

In the industries of world middlemen in one form or other are unavoidable. Taking the imported goods, before these reach the consumers they pass so many hands.

1. Manufacturers.
2. Guarantee brokers.
3. Sale agents.
4. Shipping agent.
5. Local agents.
6. Wholesale dealers.
7. Retail dealers and then consumers.

All the above do not work for nothing. It is the organisation which pays the costs of all these; over and above these there are advertisement charges, freight and duties. No Government agency can ever be successful in supplying of raw material.

(5) *Sale of finished articles.*—As discussed before sale of goods is impossible to be organised by workers themselves or any Government agency, until some business people are interested in it.

After discussing all the above points I suggest that to finance the Cottage Industries a joint stock company be promoted in which Government should buy at least one-third shares and it should be provided in the memorandum of company that the profit charged will never exceed 10 per cent. This can be called as Provincial Industrial Development Company.

Along with this company there should be small subsidiary companies such as Bihar Brass Workers, Ltd., and Bihar Weavers, Ltd.

Subsidiary companies will have their offices at the industrial centres of the special industries and their shares will be open to workers as well.

Provincial Company will buy the raw materials in big lots and will distribute them among subsidiary companies to be further distributed among workers.

Similarly provincial company will standardise the goods and will determine their quality and size which subsidiary companies will get manufactured from the workers. Provincial company will issue the catalogues, appoint agencies in different markets and advertise and will do all sorts of propaganda work to sell the goods. Subsidiary companies will get commission on the goods turned out. Provincial companies will get every possible technical help from the Government. Government will supply tools on hire purchase-system or loans to subsidiary companies on recommendations and security of provincial companies.

Oral Evidence.

Chairman: You are the Industrial Engineer in the Department of Industries, Bihar and Orissa—Yes.

For how many years have you held that post?—For about one year.

What were you doing before?—I was Supervisor to Government machinery in the Military Department. I had to tour throughout India. I was at Simla and also at Lucknow.

Is your experience of this province limited to one year?—Yes.

In what part of India is your home?—I belong to the Punjab.

You have suggested a number of cottage industries which could be easily developed in the province. Do you consider that each and all of these could be organised as an industry which the agriculturist can take up in his spare time in his own village?—Yes. I have suggested practically those which the agriculturist can take in his spare time.

Do you make any distinction as to which are for their own needs and which are for urban needs?—The distinction is only as regards marketing.

Is there any country in the world where the agriculturist in his spare time, carries out a majority of these industries?—There is a difference between the agriculturist of other countries. They are very big agriculturists using machinery for keeping themselves busy for the whole day. Then they look after industries. One man has a farm as well as a mill.

Is it practicable to take any steps to develop such industries?—We can take poultry-farming. Horse-breeding is being done on a big scale in the Punjab.

Do you see any opening for finance for the purpose of developing pig-breeding in Bihar and Orissa in the next ten years?—Yes. Piggery is carried out by *Dusadhs* in this Province. There is an opening for this if we start on a regular company basis and import good breeds of pig and give them *Dusadhs* to rear.

Professor Batheja : Who will arrange for the sale?—The company.

Do you think it will be possible to float such a company?—Yes.

Mr. Hodge : Would you suggest a wider extension of piggery by Doms and *Dusadhs*?—But they never look after them and do not understand how to rear them.

Chairman : Do you contemplate lending money to *Dusadhs* and Doms for purchasing a better class of animal?—Yes, purchasing and giving them for rearing.

Have you had any experience of giving credit to people of these classes?—No.

Professor Batheja : Have these experiments been tried anywhere else?—It has been done in horse-breeding.

Is horse-breeding in the Punjab aided by Government?—Yes, both by the military and the civil side.

Mr. Hodge : Do you know of any bone-crushing company in this Province?—It is not done here.

Chairman : Do you think an ordinary *raiya* working in cottage would be able to crush bones more cheaply than a centralised factory?—In this Province there is no bone collection. They can be used for fertilisers.

Do you require expensive machinery for bone-crushing?—For cleaning bone to be used in sugar industry we require expensive machinery.

What is the lowest price of the machine that would be of any use for bone-crushing?—Rs. 100 to Rs. 200. If it is to be used for fertilising, we do not want to clean them. For crushing the bones we require a small disintegrator.

R. B. Jalan : Do you think bone-crushing will be taken by people of all castes?—No.

Mr. Hodge : Could you narrow down your list to half a dozen industries that would be likely to succeed in this Province?—Take

dairy-farming. This is best suited for this Province. There are so many fields and there is so much grass.

Do you know of any successful experiment in dairy-farming in this Province?—No. But I have seen people sending wagon loads of *dahi* and they are preparing *ghee*. If we could teach them to make butter, they can get more money.

Is there any market for *ghee*?—Yes.

Chairman: I understand that you have developed some new industries in the Cottage Industries Institute here. Which are these?—Toy-making of paper pulp and about two dozen other industries.

What amount of capital is sunk in toy-making?—Nobody is manufacturing toys.

What amount do you anticipate will be sunk ten years' hence?—If there is a regular company started, I think Rs. 50,000 is quite sufficient.

What other industries besides toys are capable of such development?—Japanese screens.

Do you expect the ordinary agriculturist to make Japanese screens in his house?—Yes. They are made of rice straws. They have got it and they are spoiling it. But Japan and China are using the same for making your punkha frills.

Up to the present have you succeeded in persuading anybody to make these things?—No. The first thing is to do research. I have not yet got to the stage of getting anybody to make these things.

What do you think at the end of ten years will be the capital sunk in the straw industry?—It may take lakhs.

Professor Batheja: Do you think the industry when organised will be able to compete with Japan?—Yes.

Chairman: Have these gone out beyond your own factory?—I have done only research work. The next one is furniture. I have started making pushmobiles (toy motor-cars), scooters, and gramophone boxes.

Do you see any expectation of developing these as cottage industries?—Yes. There is not much of machinery wanted.

Next?—Paper flower industry. From Japan and China we are importing so much of these China lanterns, flowers, etc. We have started this and have prepared a good many samples.

Mr. Hodge: Are any of these experiments held up for lack of money?—I am getting a workshop grant of Rs. 8,000. I spend Rs. 4,000 in the toy section and I have to work under that grant.

Chairman: If the experiment is a success, would you require extra capital for the agriculturist?—We must give them raw material and buy the finished product.

Mr. Hodge: Are there any indigenous cottage industries dying for lack of capital?—All of them are practically dying, take for instance, brass work and bell-metal work.

Is that due to lack of capital or due to competition?—The bell-metal workers have got no money of their own. They have generally to go to the *baniyas* for money. They do not know how to manufacture. If we give them good capital and start the business on a regular basis they could very well manufacture.

Chairman: Is it a question of lack of technical knowledge and lack of knowledge of marketing and not of lack of finance?—There is lack of finance too. These people cannot keep their finished goods for two days even.

Professor Batheja: Can they not get advances from the State under the State Aid to Industries Act?—No as they cannot offer security.

Cannot the Co-operative Department solve the problem?—No.

Chairman: Is that due to lack of sympathy and too much officialdom?—That is one of the reasons..

Mr. Hodge: Is it lack of security again which prevents the co-operative societies from solving the problem?—Yes.

Is that the chief reason?—There are other reasons.

Professor Batheja: Is it not a question of want of technical knowledge?—Technical knowledge is also one of the causes. But finance is the main reason.

Chairman: How do you propose to supply the finance?—If we make a brass workers limited concern and give one share to each workman, then they can combine their shops, watch the markets and place orders.

What is the distinction between working through a limited company and working through a co-operative society?—Why should one be successful and another unsuccessful?—In fact, there is much difference. The shareholder knows that if there is some profit it must come to fill his pockets but the co-operative society clerk does not.

Would not the company employ clerks in exactly the same way?—It is very much different.

Do you contemplate that Government should finance the scheme entirely?—Government need only take up 10 per cent.

Professor Batheja: How would you induce the business men to join this bank?—I shall make a few samples of the bell-metal and show them that the metal costs so much and the article can be sold for so much and you can make so much profit.

You consider that the prospects of such a company are bright and will appeal to business men?—Yes, if we can show a profit of 10 per cent.

Chairman: Why do you limit the profits to 10 per cent.?—Because we may not be robbing the poor much.

Professor Batheja : A business man makes ordinarily 15 per cent. profit, how will he come and join if you give only 10 per cent.?—This is a very good profit. They are investing money at 6 and 7 per cent.

Chairman : Would you limit their losses in any way?—No.

Do you mean to say that Government would have to guarantee the loss?—Government will bear the expense of the research work that will be done.

Professor Batheja : Are you able to show that a particular concern pays at this stage?—Yes.

Why is it that no capital is forthcoming?—Up to this time I have done only research work on a few things. A firm from Bhagalpur has come forward for the toy-making section.

How does the company in Bhagalpur propose to raise its finance?—Two or three men are joining.

Chairman : Is it a limited company?—It is a private firm.

Has any other firm taken up your idea?—No. I have not approached anybody up to this time.

Mr. Hodge : Did your predecessor make any experiments like this?—No.

Professor Batheja : What has been your experience with the working of the State Aid to Industries Act? Is it working satisfactorily?—No.

Why?—There are some defects in the Act. The Act is meant for giving State aid to new industries and the Province and the people are quite ignorant of new industries and until we bring in the new industries we cannot give them money. The department has not got any means of doing research work.

Does not this Province give help to old established industries also?—We are giving, though we are not allowed to under the Act.

Chairman : Was money advanced under the State Aid to Industries Act for rice mills?—Yes.

Was that a new industry?—No.

How did you do it under the Act?—There is one thing that an industry if it is not developed in any special area then we can finance the industry. An old established industry can be aided if it is not established in a particular area.

Professor Batheja : Was not this rice mill which was helped by the department in the Patna district?—Yes.

Was not this industry established in Patna before?—I cannot say.

Chairman : What is the idea in advertising in Government Gazette before a loan is granted?—For calling in objections if any. But this is very bad system. Firm loses credit in public. There is no advertising if he applies for loan in any bank or to private person.

Do you recommend that this advertisement should be abolished?—Yes.

Do you not think it is a safeguard which should be taken before employing the money of the tax-payer?—All the banks are giving money and they are not advertising.

Is not this money their own money?—It is the shareholder's money.

Is the object of the advertisement to safeguard the tax-payer's money or is there any other object?—To safeguard that some objection may not be forthcoming later as to the security of the title.

Is there any other difficulty which you know in the working of the State Aid to Industries Act?—There are many and these require changes.

Are you closely concerned with the administration of the Act?—Yes. I am in charge of the administration of Act.

Mr. Hodge: How far do the facilities offered by this Government under the Act meet the needs of the situation?—We have given, I think, facilities to 20 firms, generally of rice mills.

Have you got sufficient finance to meet the claims?—Yes. We are refunding the money as we cannot use it all.

Chairman: Is it your idea to replace the agency for helping industry which the State Aid to Industries Act provides by an organisation which you call a Provincial Industrial Development Company?—No. State Aid will aid for the new industries to be started and the provincial company will be like a selling agency and a buying agency to find market for these things and bring in raw material.

Professor Batheja: You will make it a commercial company instead of a banking company?—Yes. Banking cannot help the cottage industries. I am not in favour of giving any money to the people but giving raw material.

How is finance to be found?—By the limited companies.

Do any industries experience any difficulty in finding finance?—Industry is only helped by financial people otherwise these cottage workers cannot go for a single day.

Are these financial facilities to which you refer adequate in the present circumstances?—They are not sufficient. If they can make a big company they can do much better work.

Do you suggest the financing of the supply of raw material by industrial banks?—No.

[The witness referred his written memorandum explaining the defects of granting cash loans.]

You are not in favour of giving any cash to the cottage industries?—No.

To middle size industries?—The industrial bank could help them.

Is there any industrial bank working here?—No.

Are the joint-stock banks performing this function?—I think there is the Behar Bank.

Are you in favour of an industrial bank?—Yes.

On what lines?—As we have got in Germany.

Where do these mills get their finance from?—Practically all the mills belong to Marwaris. These Marwaris help each other. The Biharis have got only two or three mills and they are in a fix for finance.

Cannot they borrow from joint stock banks?—These banks have very little capital.

If these Bihari mill-owners approach the Marwaris, do they find difficulty?—Yes.

And if the security is good, do they still find difficulty?—Yes.

Why should the Marwaris disdain business when the rate of interest is good?—Generally as a community they work among themselves.

Do you think for the Marwari mill-owners the supply of capital is adequate?—Yes.

Chairman: Returning to the question of the provincial industrial development company, have you any sort of idea as to what amount of capital it would require?—I should start with Rs. 20 lakhs in the beginning.

How would you raise Rs. 20 lakhs?—There are many people who would come forward.

Have you discussed this proposition with anybody who would be in a position to take up a large amount of share?—No. During the last few years 42 persons applied to start new mills.

What kind of mills?—Two big flour mills. There are many other rice, *dal* and oil mills and jute mills.

What is the amount of capital needed?—Some of them require Rs. 3 to Rs. 4 lakhs and some about Rs. 50,000.

Would it be safe to say that these 42 mills would all require about Rs. 1 lakh on the average?—Yes.

Do you think that the result of this and last year's development something like half a crore has been placed in industry in this Province?—Yes.

The 42 mills you think have absorbed something like half a crore of money including fixed capital?—They will have.

Do you anticipate development to that extent year by year for the next ten years?—I cannot say.

Can you assure us that in the course of the last year about half a crore of new money has been put into existing industries in this Province?—There has been commitment of half a crore.

Is there still demand for rice mills in the Patna Division?—Yes and in other divisions.

Is there any demand in Orissa?—Yes.

What about Chota Nagpur?—Yes. But there we want small units.

What about north Bihar?—There we have got none at Darbhanga side and at Katihar there is one mill.

Formerly there were two at Katihar, but one has closed down?—Yes.

Does not that indicate that there is no demand?—It was a very big mill but there is not much paddy and it is expensive to bring paddy there.

Mr. Hodge : Are you familiar with the history of the Belhar Rice Mills?—That is what I am speaking about; that has been taken over by a Marwari gentleman, Mr. Chamaria.

R. B. Dhandhanian : In Patna itself there were three or four rice mills started and the work on them is going to be stopped?—Yes, because you have to depend upon paddy from north Bihar and they have got their own mills.

Professor Batheja : Is it a fact that these have not succeeded because of bad location?—Yes, at one place they start a number of mills.

R. B. Dhandhanian : Is not boiling of paddy by steam more inefficient than boiling as a cottage industry?—No. I have designed a small machine for one or two horse power. In every village they should have small mills.

Chairman : That will completely cut the ground from under the existing rice mills on a fairly large scale?—I mean small and remote villages. There are some places where for hundred miles you cannot find a mill. There is scope for small mills.

Professor Batheja : Is there any scope for financing tanneries in this Province?—I cannot say. The largest population is of Hindus and they would not come forward but there is scope for tannery.

Is it true that the department does not think financing tanneries a safe business?—Nobody has approached us.

Mr. Hodge : I understand that the tannery at Motihari was a failure?—Yes, but that was not due to finance.

Was not a suggestion made that your department might take it up?—How can the department take up a tannery? We can give loans.

R. B. Dhandhanian : Is it a fact that it is the declared policy of the department not to finance any tannery in this Province?—No. I am the Secretary of the Board of Industries and look after the cases.

Professor Batheja : Would you be surprised if a member of the Board of Industries made the statement?—I have heard him just now. No instruction has been given to me that I should not entertain any application.

R. B. Dhandhanian : But you have refused assistance to certain tanneries in Bhagalpur?—Not in my time.

Do you know of the Pirpainti mill?—Yes.

Do they not want money for their business?—They have taken money.

Are they not still in need of money?—They are being helped by Marwari gentlemen.

Chairman: Is it your experience that it is very much easier for any industry in this Province to get finance if it is backed by the Marwaris?—My opinion is that if I can induce a Marwari that here is a paying business it is very easy to get money.

[The Chairman requested the witness to pick out about a dozen out of the long list of cottage industries given by him and to give an estimate of the probable requirements of capital for developing those industries on cottage lines.]

Babu SADASHIVA PRASAD, M.A.

MEMORANDUM.

As a member and for a long time Honorary Secretary of the Patna College Chanakya (Economics) Society, I had numerous occasions to deal with village reports. I have myself conducted numerous enquiries in some of the villages of Monghyr, Shahabad and Muzaffarpur districts about the economic conditions of the poorer agriculturists and acquired first-hand knowledge about their ways of living and financial resources.

INDEBTEDNESS.

It seems really very difficult to make any statement about the indebtedness of agricultural people in this province but as much a statement would be imperative and almost indispensable in a memorandum for the Banking Enquiry Committee, I would venture here to lay down the result of my close observation in the cases of nearly 5,000 families of members of co-operative societies in the Jamui and Hajipur subdivision of this Province with respect to their assets and debt on joining the society and their present debt to outsiders and their society. In many places people are involved heavily in debt and mortgages on land are transmitted from father to son. During my investigations I have come across numerous cases of families whose indebtedness would evoke pity in the hearts of anybody—their debts nearly equalling their assets. In the year 1926, when I conducted a survey of co-operative activities in the Jamui subdivision, under the auspices of the Patna College Chanakya Society, I had the occasion to examine the assets and indebtedness of about 1,150 families of village co-operators. I found the average assets of every member of the several co-operative societies in the subdivision to vary between Rs. 700 and Rs. 800 (this average was as low as Rs. 123 in village Maniadda).

The debts of the members averaged roughly one-sixth of their assets. The position was worse in the Hajipur subdivision, where I have had occasion lately to examine thoroughly the assets and indebtedness of about 3,500 families of village co-operators. The average assets in this subdivision came to Rs. 1,133, very much higher than the average for the Jamui subdivision. This indicates no doubt that the people in this part of the Province are economically better than those in the Jamui subdivision. It is depressing to note, at the same time, that the debts of the members here averaged roughly one-fifth of their assets, the average per member being Rs. 222. In some parts of the Buxar subdivision, where I have conducted some village enquiries, I found the rural population indebted to the extent of one-fourth of their assets. Personally I am strongly of the opinion that our poor cultivators, who are ill-educated in the wise use of capital, limit their borrowings not so much by their wants as by their opportunities. Except when the existence of debt is due to necessity its volume always depends upon credit. The greater the number of money-lenders (I do not mean only the professionals, but all people dealing in money-lending) in a locality, anxious for the profitable investment of their money at all cost and totally oblivious to the welfare of their clientele, the greater will be the volume of indebtedness of the poorer people in that area. I feel sure that the appalling indebtedness of the agriculturists in our Province would have been very less to-day if we had provided adequate credit facilities for them fifteen or twenty years ago.

It is very difficult to reach any estimate of the existing indebtedness of the agricultural classes to devise measures for the increase of credit facilities to them. Figures would vary for almost every subdivision in this Province, and I should not like to hazard any bold guess for the whole Province. Suffice it to say that I found the average indebtedness of every family of the poor co-operators to be Rs. 117 in the Jamui and Rs. 222 in the Hajipur subdivisions. This includes the indebtedness of the members both to outside *mahajans* and their village societies.

सत्यमेव जयते

INDIGENOUS BANKING.

As the outside *mahajans* play a great part in our rural life and can boast of a clientele by far greater than that of our village societies, I will deal with them first, and offer what suggestions I have for making them more serviceable to the community. I will confine my observations mainly to the *mahajans* of the Hajipur subdivision, as I have had recently opportunities of dealing with them in my co-operative survey of this area.

What on account of the illiteracy of the masses and what on account of their false sense of prestige which induces them to conceal each other's debts, the village-*mahajans* possess a great advantage over the co-operative societies. Money-lending, as everywhere, is one of the oldest trades in this subdivision, and is mainly carried on by our classes of people, viz., the local zamindar, *bania*, and agriculturist

and by outsiders, the chief of whom are Kabulis and Punjabis. Now to deal separately with each of these four classes.

(i) *Zamindar*.—Almost all the zamindars of the subdivision, who are well-to-do and free from debt themselves, carry on money-lending in their respective villages. The zamindar *mahajan* generally charges an interest of 12 to 18 per cent. per annum, compoundable yearly or six-monthly according to the terms of the particular transaction. He deducts Rs. 5 as *salam* for every Rs. 100 advanced by him to his clients. His ultimate aim is to take possession of his clients' lands by registered *kabala* (sale) deeds. With this end in view he will go on advancing money to his poor tenants in small amounts, and as soon as the amount becomes heavy he will compel them to transfer their lands to him either by registered sale deeds, or through the surrender of their rights of tenure, in which case their land becomes his *zirat* land. Sometimes the zamindars also lend grains to their tenants for seed, etc.

(ii) *Bania*.—The *bania* is the most timid of the four of his calling. He is known all over the country for his niggardly habits and is the most thrifty. He administers to the daily wants of the cultivators on credit, charging one anna every rupee per month as interest on the price of his goods, even if his accounts are cleared off at the close of every month. He exchanges his goods with the cultivators' produce. Sometimes he also finances his clients in the time of their necessity.

(iii) *Agriculturist*.—The agriculturist money-lender is by no means a new feature in our village life. Money-lending is so profitable, and opportunities for investment so unlimited, that anyone in this subdivision with spare cash is tempted to lend. When a *pakka* house has been built, land has been bought, and his wife decked with jewellery, what remains will be given out on loan. The agriculturist money-lender deals with his clients (i) through *bahikhata*, (ii) on the security of land, and (iii) on handnotes. In the first case, the money-lender advances money to his clients for their miscellaneous needs, charging generally 2 annas per rupee every month as interest. Interest is compounded in *Baisakh* and *Kartik*, no matter if the money is advanced for full six months or not. In other words, any amount advanced in any month between *Baisakh* and *Kartik* or vice versa is compounded with interest in *Kartik* and *Baisakh*, respectively. When the amount becomes rather large, the *mahajan* will compel his client to mortgage his land by means of registered deeds for a sum much in excess of the debt promising orally to meet his wants to the extent of this excess in future. Wherever there are returned emigrants, ex-officers or large holders the agriculturist money-lender will be found, and in these areas the whole mortgage debt is rapidly passing into his hand. It must, however, be acknowledged here, to the credit of this class of people, that owing to their varied interests they are perhaps less exacting than their rivals and a little more human.

(iv) *The Kabulis and Punjabis*.—They generally make loans to agriculturists in the dry season, and realise their principal and

interest when the harvest is ready, thus compelling the poor *raiya*s to sell their produce at a more unfavourable price, when the market rate is very low. They generally deduct 25 per cent. of their advances as *salami* and *tahriri*, get handnotes executed for the entire amount and charge extortionate rates of interest ranging from 24 per cent. to 50 per cent. When the time of realisation comes, they sit tight with their big *lathis* at the door of the *raiya*t, and refuse to move before the money has been realised in full with interest. They also sell cloth during the early months of winter, when the poor agriculturist sorely needs something to cover himself with. As the cloth is available to him at his very doors, and on credit, he considers this as a God-sent loan, though he has ultimately to pay more than double or treble the usual price. He finds himself in very deep water when the time of repayment comes, as generally he has to mortgage his best lands to his zamindar or the village *bania* to pay off these Shylocks. Thousands of poor agriculturists have in this way been evicted from their lands and forced, when rendered quite landless and homeless, to leave their hearth and home and go to Bengal to earn their livelihood by labour.

GRAIN LOANS.

My enquiry goes to show that dealings in grain also take place in this area, though not on the same scale as dealings in cash. A few years ago, when a money economy was not fully established in the village, nearly all dealings between a money-lender and his clients were in kind, but now this is resorted to only in cases where the cultivator needs seed for his land. After a bad harvest grain may still have to be borrowed for food. *Mahajans* charge very high rates for grain loans—a maund of grain has to be repaid in a maund and a half generally at the end of six months. In addition, grain loans bring a number of other advantages to the *mahajan*; it is a simple matter to advance bad grain and get good in return. Again, it yields him a higher rate of profit, for the account can be manipulated with ease. Neither credit nor debit is entered at market rates, one or two annas a seer being added in the case of an advance and deducted in the case of repayment. Realisation is effected very harshly in the case of these loans—grain is taken directly from the man's threshing-floor, thus compelling him only about a month or two later to borrow for paying the land revenue and meeting other necessary expenses.

With the assistance of the supervisors of the Hajipur Co-operative Union, I was able to get a rough census taken in villages where co-operative societies are in existence in order to ascertain the approximate number of money-lenders of the various classes and their total investments in money-lending. The figures before me indicate that the number of money-lenders would be about 500, which gives an average of three in every village. As many as 23 villages have on an average 10 money-lenders each. Agriculturist money-lenders number about 50 per cent., and *bania* and zamindar *mahajans* about 20 per cent. each, while the remaining 10 per cent. would come under the category of outsiders, mainly Kabuli and Punjabi money-lenders. The

figures collected further show that the probable amount invested in money-lending would come to about Rs. 7,50,000 which would give an average of Rs. 1,500 per money-lender. They generally invest their own capital in this business, though sometimes some of these classes, especially the *banias*, raise their capital by loans from big merchants, or very scarcely from deposits from their clients, on which most generally they pay an interest of 9 per cent. per annum.

The *mahajans* do not have any expenses to incur in their trade. Those who have their business on a large scale and their clientele in a number of villages engage some peon to make their collections. The number of such money-lenders would be very few in the Hajipur subdivision. There is no connection between the money-lenders, nor any antagonism between them. There is no difficulty in getting sufficient clients, in which case there might have been some competition between the four classes.

The following figures regarding the registration of the various kinds of deeds during the year 1928, in the Lalganj and Mahua areas of the subdivision, received through the kindness of the Subdivisional Officer, Hajipur, will be found valuable as indicative of the volume of the money-lenders' business in the subdivision (it is not possible to furnish accurate figures of unregistered transactions):—

Serial no.	Kind of deeds registered.	Number.	Amount covered by the deeds.	Most general rates of interest.
1.	Money-deeds ...	42	Rs. 7,910	... 2½ per cent. per annum.
		(18+24)	(Rs. 3,195+Rs. 4,715)	
2.	Simple mortgage deeds,	1,805	Rs. 4,12,278	... 18 to 2½ per cent per annum.
		(441+864)	(Rs. 1,23,571+Rs. 2,83,707)	
2.	Usufructuary mortgage deeds.	3,652	Rs. 7,73,642	
		(1,355+2,297)	(Rs. 3,80,719+Rs. 3,92,923)	
4.	Sale deeds ...	3,508	Rs. 8,02,566	
		(1,143+2,425)	(Rs. 2,34,773+Rs. 5,67,793)	

I regret, I could not get similar particulars about the Hajipur and Mahnar areas of the subdivision, or the area of the land covered by the mortgage and sale deeds registered in the Lalganj and Mahua areas.

I may be accused of having taken a very pessimistic view of *mahajani* transactions in this area. I think these *mahajans* would have been of immense use to our poor agriculturists, by making capital easily available to them in their time of need, were it not for some of their malpractices and usurious ways with some of which I have dealt in the preceding pages. I like very much the idea of setting up licensed or registered money-lenders in every village whose operations may be controlled by the State in the interests of agriculture. These licenses should be issued as liberally as possible. If the State restricts the issue of licenses the *mahajans* will be able to exercise undue influence over their clientele and this may lead to some more abuses in the *mahajani* transactions of the Province. Necessity is a very bad thing,

and a man who needs loans immediately will be induced to please the *mahajan* by any means who may otherwise refuse him the loans on flimsy pretexts. I, therefore, suggest that there should be a number of registered or licensed money-lenders in every village to enable the agriculturists to make their own choice of their *mahajan*.

The accounts of these *mahajans* should be inspected regularly by responsible officers of the Government to see that they are carrying on their transactions honestly. It should be prescribed as a duty of the *mahajans* to discourage unproductive loans as much as possible, and satisfy themselves before making a loan to anybody that it is actually needed. Defaults of this rule should be severely dealt with and punished suitably. Above all the rural population should be made to understand these privileges and instructed to bring their complaints quickly to the notice of the authorities.

I am further of opinion that a maximum rate of interest chargeable by the *mahajans* should be prescribed by the Government for every subdivision—I know that it is difficult to have a uniform rate for the whole Province. These rates may vary from time to time, and should be determined by the capital available in the subdivision to finance the agriculturists.

I am not sure how the restrictions imposed on money-lending will be liked by the *mahajans*. Possibly they will oppose them very much, but I think by persuasion we may be able to bring round the obstructionists in course of time. They will also be gainers by these improvements, as their loans will be more secure and chances of losses in their business considerably reduced.

CO-OPERATIVE BANKING.

Our village societies, despite their great potentialities for doing good to the rural population to whose needs they minister, cannot be said to have proved very popular in this Province. Taking the population of the Hajipur subdivision to be 656,002, according to the census figures for 1921, and on the assumption that a member of a co-operative society represents a family of five people, it would seem that up till now only 2 per cent. of people have joined their village societies. Out of 48 members examined by me for my Bihar co-operation II—Hajipur subdivision,—45 stated that they had joined their village societies simply because they found that they could obtain loans at a cheap rate of interest from these societies; and almost all of them thought that those who could obtain loans easily at equally cheap rates of interest elsewhere or were well-to-do had no utility for these societies and hence did not consider it worth their while to join them. I think that the co-operative movement in this Province everywhere is becoming too stereotyped and the time has now come when we should seriously think of organising it on a broader basis than a mere credit movement. I will deal with the credit and non-credit side of the movement presently and discuss the various issues that may arise in these connections.

The Central Union, Hajipur, advances money to its constituent societies on an interest of $9\frac{3}{4}$ per cent. per annum for A class societies, and $10\frac{1}{2}$ per cent. per annum for other societies. The societies lend to their members on an interest of $12\frac{1}{2}$ per cent. per annum—formerly they used to lend out on an interest of $15\frac{5}{8}$ per cent. Now an interest of $12\frac{1}{2}$ per cent. per annum, though it may seem equitable to some people, is certainly very high and should be lowered still further to increase the utility of the movement to the poor members. The big people who never need these loans themselves may be divided on this subject, but if we turn from them to the statements of members which were taken for this enquiry we find that they are unanimous in their demand for a still further reduction in these borrowing rates. Asked as to how the utility of their village societies could be increased, all of them had one answer, "Decrease the existing rates of interest". I have considered the pros and cons of the matter very carefully, and am of opinion that the present rates do admit of a still further reduction. What may be said for reduction is this—though the money-lenders charge extortionate rates of interest to the necessitous, it is not difficult for a man of means who can offer good security to obtain loans at a much reduced rate of interest, ranging from the minimum 6 to 12 per cent. per annum. Of course, the poor cultivators, who have no very strong security to offer, have to submit to the higher rates of the *mahajans*. A very strong reason why our co-operative societies have not up to this time been able to enlist as many supporters amongst the middle classes and rich zamindars as amongst the poor people is that the former can obtain loans on equally cheap rates of interest from private individuals. Hence, village banks fail to attract these classes. I would, therefore, very strongly urge the advisability of reducing the rates of interest for members of village societies still further. The least effect of this would be the increase of the popularity of the movement amongst people who have not yet joined it.

LONG-TERM AND SHORT-TERM CREDIT.

A great defect of co-operative banking at the present time is that it does not make adequate arrangements for either long-term or short-term finance. Loans taken for cultivation, trade and current expenses are recoverable within one year's time while loans for purchase of cattle, payment of arrears of rent, marriage or *shradh* ceremonies are recoverable within two to three years. Loans to liquidate big old debts, for purchase of land, redemption of mortgaged lands are generally made recoverable in easy instalments spread over four to eight years, according to the amount of the loans and the repaying capacity of the borrowers. One or two special cases came into my notice where I found that loans were advanced for eight to ten years. I am of opinion that more long-term loans are necessary, and there should be special rates of interest for loans for the redemption of mortgaged lands (which generally carry low rates of interest) and for improvement of lands. Such loans would increase the moral value of the movement. As matters stand at present we find that it is more profitable for a

cultivator to borrow money on the security of his land (by mortgage, I mean) from a *mahajan* than from his co-operative society. In the Hapi-pur subdivision, where I interviewed numerous members of village societies, I found that the rates of interest on their mortgaged property was very much less than that of their borrowings from the co-operative societies. Nobody can be induced these days to effect improvements in his lands by borrowing money from the co-operative societies for this purpose. If there would have been special reduced rates for these purposes, with their repayment instalments spread over a large number of years, say eight to ten, possibly most of our waste lands would have been yielding rich harvest to-day for their owners.

Coming to short-term credit, I have found wherever I have made investigations, that the provision for short-term loans in co-operative banking is very disappointing. The result is that in a number of cases, the members have to go to the local *Sowkars* for short-term credit. I think that one of the reasons for the present large overdues in our village societies is the defect in the existing organisation, under which inadequate facilities are granted for the disposal of short-term loan applications. Cultivators do not repay their loans, as they fear that if they do so they will be unable to obtain the money they require in time for their next cultivation season. Their fears are not altogether baseless, as in actual practice we do find that the time in dealing with such applications for loans is sometimes as long as two months. (I know that influential members sometimes are able to get their loan-applications sanctioned by committee of management of their society and passed by the Central Union in a time much less than this period.) The *raiyyat* cannot obviously wait for any such period, and in consequence either goes to the money-lender or withholds the payment of his *kist* to his society.

I cannot blame the co-operative societies for their heavy rates of interest or the defects noted above. The Central Unions or Banks raise money from deposits from the local people or on loans from the Provincial Co-operative Bank. They have to pay an interest of 6 to 7 per cent. on their deposits and nearly the same on their borrowings from the Provincial Bank. They keep a margin of nearly 3 per cent. for their expenses of management and other works of educational character which they undertake in their areas, and lend out to the village societies on $9\frac{3}{4}$ or $10\frac{1}{2}$ per cent. per annum. This margin is very fair. Again, most of their deposits are withdrawable after three years and hence they cannot be reasonably expected to do more than what they have been doing in the matter of providing long-term credit for their constituent societies. The only solution of the two difficulties seems to be that the Government should help the movement by giving it generous financial assistance to enable it to continue its humanitarian activities on a large and more organised scale. This they can easily do by the inclusion of debentures issued by Provincial Co-operative Banks in the list of trustee securities and by giving the Co-operative Department generous financial assistance every year till it is able to do without any Government aid. I feel that up to this time the Government have

not given the Co-operative Department the help and attention it deserves of them. They have relied too much on public support which has not been forthcoming to the desired extent.

So far as the provision of short-term credit is concerned, I would suggest that the Central Union should grant cash credits to the societies up to a certain percentage of their annual quota of loans. This procedure, I am afraid, is a little difficult as it will make it obligatory upon the Union to maintain fluid resources. This difficulty can be easily got over if the societies are asked to make forecasts of their requirements at particular seasons of the year, e.g., cultivation requirements, requirements during *Lagan* (marriage season), and so on. Once carefully prepared, these would vary very little from year to year. There is some risk of the societies misusing these cash credits and drawing upon them without thought and care. Nothing, however, quickens the sense of responsibility so much as being placed in charge of some responsible work, and we would do well to introduce it in at least some of our model societies, if only for the sake of experiment.

I would finish my memorandum with observations on the possibility of helping our small industries through the co-operative organisation and the promotion of investment habit and attraction of capital through the same source. We can very well organise and develop co-operative production and sale societies in a number of subdivisions of our Province. People here raise a number of money crops, including potatoes, tobacco, chillies, mangoes, plantains and liches. A number of rapacious middlemen come in between them and the consumers with the result that they get a very poor return for their outlay and labour. They would very gladly welcome organisation of this kind, which would eliminate the *bania* and *sowkars* who at present make huge profits at their cost, and so husband their resources as to enable them to get the highest return for their produce. I must, however, sound here a note of warning in starting such societies. Our experiences of the non-credit side of the co-operative movement in this Province are not at all encouraging. Most of our co-operative stores have come to grief. I think that our failures in the non-credit side of the movement have been due to the fact that we organised them rather hastily and could not provide efficient and well-trained workers for working our non-credit societies. We cannot expect our inspecting clerks and managers, who are all overworked and ill-acquainted with the practical side of non-credit societies, to look to the working of the co-operative stores and the other societies of this kind. Government here also will have to provide adequate staff for this purpose and may even have to take over entirely the management of such societies for the first few years in the beginning to prevent them from coming to grief due to lack of funds.

INVESTMENT HABIT AND ATTRACTION OF CAPITAL THROUGH CO-OPERATIVE AGENCY.

Investment habit is of very slow growth in our country. In spite of the fact that our village societies offer a very fair rate of interest on deposits—it is 9 5/6 per cent.—the members do not realise the advantages

of making deposits. In the Jamui subdivision in the year 1926 out of 124 societies only 26 of them had deposit business in them, and the actual amount deposited in 25 societies by the members was only Rs. 247. In the Hajipur subdivision the total deposits held at the end of last year was only Rs. 5,887. This gives an average of Rs. 33 per society, and Re. 1 odd per member in this area. There are only about six societies which hold more than Rs. 200 as deposits. There are a number of societies which transacted no deposit business during the years 1927 and 1928; and though the total amount of deposits and share subscriptions has been rising from year to year, yet the average per member is only a little above Rs. 11. To me, it appears that no concerted attempt has been made in this area to induce members to deposit all their savings in the village societies. During my investigation, several cases came to my notice where I found that members invested what little savings they had with the *mahajans*. I do not know why they feel diffident in depositing in their societies, especially when the rates offered by both is nearly the same. In the statements that we took in answer to one of our questions, "Why do not you invest all your savings in your society?" none of the members had any complaint to make against their village societies about delays in withdrawals of their deposits, which dissuades some people from depositing in the societies. Bombay faced this problem of meagre deposits by members of village societies by introducing compulsory deposits. These are fixed for five to ten years, although in special cases they are withdrawable within a year also. In the United Provinces, a deduction is made at the rate of one anna to a rupee at the time a loan is advanced to any member. This is credited to the member's deposits. This system is very much like our own system of compulsory share-subscriptions. Madras steals a march over other provinces in this respect. The system of prudential deposits is in vogue there. A man deposits say at the rate of Re. 1 per month, and at the end of 18 months he gets Rs. 20. This offers an attraction to the members, and is an inducement to deposit something regularly, in the hope of having a lump sum at the close of a stated period, which is generally made to synchronise with the marriage or the cultivation season. The Punjab has got a number of thrift societies with the sole object of promoting thrift in their members. Our Provincial Bank and most of our Central Banks are overflowing with deposits, which shows that the more educated and enlightened people trust them. It is time now to take steps to encourage deposits by our village co-operators. Our co-operative movement will have made solid progress if, through its efforts, our cultivators become more thrifty, and our village societies are financed to some extent by their own annual savings. In this respect the example for us to follow is France, which has the thriftiest peasantry in the world. I would suggest the introduction of the Madras system of prudential deposits in some of the village societies. In addition, I would suggest the introduction of the *muthia** system of deposits and the early organisation of thrift societies at the headquarters stations of all the subdivisions of the Province to inculcate thrift among the co-operators of this Province.

* Grain doles from individual members.

Oral Evidence.

Chairman : May I ask what your present occupation is?—I have taken my M.A. degree and am now attending law lectures.

You took a particular interest in Economics during your College career, I suppose?—Yes.

And am I right in saying that you conducted a special survey of the working of the Co-operative Department in Jamui subdivision?—Yes, I did so in the Jamui, Hajipur and Buxar subdivisions.

Mr. Hodge : Are you a member of a co-operative society yourself?—No.

Chairman : Could you tell us as briefly as possible how you conducted your survey in the subdivision?—First of all, I drew up a questionnaire and sent it through the Registrar of Co-operative Societies, Bihar and Orissa, to people connected with the co-operative movement in this subdivision requesting them to give me details as asked for in the questionnaire. Secondly, I drew up a simpler questionnaire for members of village societies and I selected about 50 primary societies for this purpose. Then, with the help of the Co-operative Propaganda Officer of the Tirhut Division, I examined 50 members of these primary societies orally and recorded their answers according to this questionnaire. I obtained replies from 19 gentlemen to my first questionnaire. I also sent another questionnaire to the Hajipur Central Co-operative Union to know its views about the working of its constituent village societies. These were the methods by which I conducted my survey.

Then a considerable part of your enquiries in Hajipur were personally conducted by you directly with the people in the villages?—Yes, that is true, with the help of the Propaganda Officer, as already stated.

And the other details you have collected are the opinions obtained from various people regarding the working of the co-operative movement?—Yes. I also drew up a form to collect particulars about the assets and indebtedness of the members of co-operative societies, and I got the supervisors of the Hajipur Co-operative Union to collect these informations for me.

So the statistical part of your work was done by the supervisors, people who are called inspecting clerks?—Yes, that is so, and I verified their statements by informations collected by me personally, and found them correct.

The statistical part of the work, I take it, was drawn up from the *Haisiat* Register?—Yes.

Mr. Hodge : Did you ever check a *Haisiat* Register yourself?—Yes, I did.

And you found it on the whole to be an accurate statement?—I cannot say that it was an accurate statement, because the general complaint of the members was that their assets were under-estimated.

Chairman : So, you say that their assets have been under-estimated?—It is so, I find these supervisors are very chary in estimating their assets.

So you say that the reason for under-assessment is not concealment of assets but under-valuation by the supervisors?—Yes.

And the complaint of the members is that they want to borrow more?—Yes.

Mr. Hodge : Is there a tendency on the part of the member to conceal his liabilities?—In the Hajipur subdivision, especially, they have not hitherto succeeded in arriving at the true state of liabilities.

Chairman : Do you think that the reason for the failure of ascertaining the true state of affairs is because of the fact that debts have been concealed from the beginning and fresh debts are incurred year by year?—Yes, debts are generally concealed from the beginning. Old debts, known to the officers of the central union, are satisfied and then debts incurred before the member joined the society, and in some cases subsequently, come to light, and are put down against his name in the *Haisiat* Register. Thus, it is found that the indebtedness of members of co-operative societies has been increasing.

This increase, in your opinion, is more apparent than real?—It is so in most cases. In a few instances only it might be real.

Mr. Hodge : You think the *Haisiat* Register as prepared now is more correct?—Yes, they are trying to make it as accurate as possible nowadays.

Chairman : Would not in ten years' time all the suppressed indebtedness come to light?—Yes, it might come to light provided the supervisors would do these things more carefully. At present, in most cases they are doing the work most superficially. We cannot expect good work from the existing staff of supervisors who are mostly ill-paid. They also lack in education as matriculates and failed matriculates are employed for this work.

R. B. Jalan : What are these people paid generally?—They are paid only Rs. 30 to Rs. 40 per mensem.

Mr. Hodge : Do you not think it will be difficult to get efficient men to do this work?—They must be paid better than they are at present, and a superior class of people should be recruited to do this most important work of village reconstruction.

Professor Batheja : Is the column under "Purpose of Loan" correctly maintained?—In most cases they are correctly stated. Where the members of co-operative societies cannot get loans for purposes classified as "unproductive", such as maintenance charges, house construction, etc., they get loans on other pretences, such as purchase of cattle, etc.

Chairman : Then you think that the total of loans taken, for example, for maintenance, is probably under-estimated and that for purchase of cattle is over-estimated?—Yes.

Are there any other statements which are probably incorrect in the same way?—Yes, in the case of house repair and construction it is always under-estimated.

Professor Batheja : Is there any difficulty in getting money from co-operative societies for house construction?—They generally discourage such loans on the ground that the member ought to be able to build a house out of his savings.

Does the co-operative department discourage loans on maintenance?—Yes, they do.

Mr. Hodge : I have never come across an instance where a loan for maintenance has been disallowed. Can you give me any specific instance where it has been disallowed?—I do not remember of any particular instance now, but I know of instances where loans having been refused on this ground, members have borrowed money on other pretences.

Professor Batheja : Are expenses under the heads “ Marriage ” and “ *Shradh* ” under-estimated or over-estimated?—Loans are advanced according to the needs of the individual members, so that I cannot say it either way.

Do the societies discourage such loans as well?—Yes, they do, on the ground that it is not a productive loan, but loans are advanced for such purpose in special cases.

Chairman : You say that “ Cultivators limit their borrowings not so much by their wants as by their opportunities ”. Later on, you say that “ the indebtedness of the agriculturists would have been very much less to-day if we had provided adequate credit facilities for them fifteen or twenty years ago ”. How do you reconcile these two statements?—I am referring to the practice of the *mahajans* who generally advance loans to their borrowers as much as they would take.

Do these *mahajans* provide adequate credit facilities?—They charge exorbitant rates of interest, though they provide adequate facilities; but what I say is that they go on advancing more than the requirements of the cultivators only for the sake of the investment of their money.

The point is whether cheaper credit tends to increase indebtedness or not?—Of course cheap credit does tend to increase indebtedness, but I am referring to the rate of interest charged by these *mahajans*.

Do you think the provision of more credit facilities at cheaper rates of interest than charged at present would increase indebtedness or diminish it?—Provided the loans are advanced for productive purposes and the cultivator is taught how to use his capital wisely, I think it would reduce indebtedness if more credit facilities at lower rates of interest are provided.

But if any agency is established which would give cheaper credit but would not give it for productive purposes only, the result, you think, would be an increase in the indebtedness?—Yes, certainly.

Mr. Hodge : Would not an increase of a man's credit lead to an increase of indebtedness?—That is generally so.

Professor Batheja : Would that be true of all classes generally or only a small percentage of people?—It will apply only to people who do not know how to use cheap credit.

What would be the percentage of people who cannot be trusted with cheap credit in the villages?—I think about 80 per cent. of our agriculturists do not know the value and proper use of capital.

And you think the other 20 per cent. of the people would make a good use of the credit?—I am doubtful of this also, but generally it can be presumed to be so.

Have co-operative societies made credit cheap?—The rates of interest charged by co-operative societies are very high, but I give them this credit that they are trying to discourage unproductive loans.

You told us that in cases of loans for marriage, *shradh*, etc., even though they are unproductive loans, the co-operative societies used to advance to their members?—The members try to save as much as they can, and try to keep by something for expenses under these heads and so they apply only for small loans for these purposes. I say this because the percentage of advances recorded in the Hajipur subdivision under these heads in 1926 was 4.6, while in 1927 it was as low as 1.5.

Taking all things into consideration do you think the co-operative societies have made credit cheap or not?—I would not say that they have made credit cheap.

Has the indebtedness of the people decreased?—Only in very rare cases.

And so you think that indebtedness has increased in the vast majority of cases?—That is so.

Does that not indicate that the co-operative movement has made credit cheap?—I have explained that the indebtedness of members has gone up because the debts contracted by them before they joined the societies were not ascertained properly.

Are you opposed to the setting up of any other agency besides co-operative societies for advancing loans at lower rates of interest?—I am in favour of having some licensed money-lenders to meet the necessities of our poor agriculturists.

Chairman : Did you find people who are members of co-operative societies either exceptionally poor, or were they exceptionally well-to-do, or just the average type of men?—They were exceptionally poor mostly, although some people who are fairly well-to-do also join the movement to help its growth.

On the whole your opinion is that members of co-operative societies are below the average in the matter of wealth?—That is so.

Professor Batheja : Would the debt of an average co-operator be ordinarily more than the debt of an average agriculturist who has

remained outside the co-operative movement?—I have not made a thorough examination of this subject to enable me to answer this question usefully.

Mr. Hodge : Would it not be a fact that the bigger cultivator would be a bigger borrower?—I cannot say.

Is it not a fact that many cultivators are refused membership in the co-operative societies because they are very heavily indebted?—That is very rare, I think.

Chairman : There is a class of well-to-do cultivators who are lending money in the villages, is it not?—Yes, there are.

Is that class increasing?—I cannot say anything definitely, but I can place before the committee the results of the census of the various classes of people engaged in money-lending which I got taken in the Hajipur subdivision. I think that about 50 per cent. of the people engaged in money-lending are agriculturists of good means.

Professor Batheja : Do you think that any man who has got surplus money sets up business of money-lending?—Yes, I think so.

So you consider that money-lending is no longer a specialised occupation?—I do not consider it to be so now.

Was it more specialised sometime ago?—It was a more specialised occupation in former days, when there were less people to advance money, but now anyone who has surplus cash does it.

Will not the present state of affairs tend to lower the rate of interest in the course of a few years?—I think so. There will be some competition.

Mr. Hodge : Do you think the chief reason why the village agriculturist lends is because it is a profitable business?—That is so, and, moreover people who lend money do so to obtain cheap labour for themselves. Because of scarcity of labour they advance money to labourers of small means so that they can keep the latter under their control for work in the fields.

Professor Batheja : Do you think the wages are still on the customary basis and there is no increase in the same?—Yes, it is mostly on the customary basis.

Chairman : You have given us the number of money-lenders in the villages as 500 and you say that you arrived at that figure from the figures you had collected. Have you included people who have very petty transactions as well?—Yes, I have included even small money-lenders.

Professor Batheja : Excluding people dealing in petty money transactions, how many money-lenders will there be in the villages?—In that case it will only be about one-half of the number.

What would be the capital of a money-lender if you exclude all petty money-lenders?—Taking cash and grain together the capital of a money-lender, on an average, in this case will be between Rs. 3,000 and Rs. 4,000.

Do these Kabuli and Punjabi money-lenders borrow their capital from other money-lenders?—I do not know where they borrow, but at any rate, I do not think they borrow for their requirements locally.

Chairman : On the whole, do they do very much business, or do they meet only the immediate demands of the extremely needy and the thriftless cultivator?—They meet these immediate demands, and they also deal in cloth.

Do you think they meet only the needs of the extremely thriftless people who would otherwise get no finance at all?—I cannot say that. It may be that they would be able to get the finance required if they tried other quarters.

Professor Batheja : Do these Punjabis and Kabulis practically thrust money on their clients?—Yes, they are very persuasive when they wish to get a man in their grip. Besides they sell cloth on credit, and this induces the thriftless *raiyat* to purchase cloth from them.

Mr. Hodge : Is it not rather by advancing cloth to their customers that they do their business?—They do more money-lending than cloth business.

Professor Batheja : Would it cause great hardship to the agricultural community if these Kabulis are eliminated from the village society?—It will never be a hardship at all. On the other hand, all people will welcome such a move. These Kabuli money-lenders are sucking the very life-blood of the poor agriculturist. They sit tight on the people to whom they have lent at the time of realisation, and never leave them until they are repaid, with full interest. They threaten them with their big *lathis*.

Chairman : Have you seen them do that?—Yes, I have.

Professor Batheja : Are there any Nagas in Hajipur?—I have not heard of any.

I find that you are in favour of having more than one licensed money-lender in every village. Would it be possible to get more than one of the suitable status in every village?—I think it will be possible in most of the villages.

What should be the assets of such a licensed money-lender operating in one village?—I would not attach any particular importance to the assets of the man. If he is honest and straightforward in his dealings, I would give him a license.

How will you ascertain the honesty of the man?—Through the official agency. I think, police officers not lower in rank than inspectors could be trusted to do this work efficiently.

Chairman : If Government or other agencies were to advance funds to these licensed *mahajans* would it not be necessary to look into their assets?—I think we would be able to get over this difficulty by getting men of the required status and wealth.

Professor Batheja : Then you contemplate having 200 licensed *mahajans* in the Hajipur subdivision irrespective of the controlling agency?—That is my suggestion.

Would that not be a heavy task?—My idea is there. Details, however, could be worked out.

So you are in favour of the leading idea?—Yes. I have not, however, thought over the details of the scheme.

Do you think that control over these licensed *mahajans* by Government would be evaded by some unfair means?—If there is rigorous control, I do not think there should be any evasion.

Do you think there will be a body of *mahajans* who could be trusted with this business, or do you think they are utterly hopeless?—If we educate the *mahajans* properly and if propaganda is also done, it will be possible to get many honest people who would be willing to come forward to do the work.

Chairman : You suggest that if a licensed *mahajan* advances an unproductive loan, he should be severely dealt with or punished suitably. What form of punishment do you contemplate?—Cancellation of the license, warning, or fine may also be imposed.

Professor Batheja : What inducement would you give to a *mahajan* to apply for a license?—He may be permitted to have a subsidiary occupation besides money-lending.

Would you offer him facilities for realising his debts?—Yes, we should provide him with adequate facilities for that purpose.

Mr. Hodge : What sort of loans would you call unproductive?—I have known of people who used to advance money for gambling. Such things should be stopped.

Do you call expenses incurred for marriages as unproductive?—I do not say it is so unless expenses are made in an extravagant manner.

If a man wants a loan for marriage expenses he will find it very difficult to get it, if your suggestion is given effect to?—I think advances, consistent with the man's social status should be made for such purposes.

Professor Batheja : But would you make an advance to a man who has not the requisite income to meet his expenditure?—I am not thinking of such an extreme case.

Mr. Hodge : According to your scheme will it not be equally difficult for a man to get his loan from a licensed *mahajan* as it is to get a loan from the co-operative society?—Some restrictions must be imposed on the registered *mahajans* to limit their granting of loans, and to discourage unproductive advances.

Chairman : You have suggested that the co-operative banks should be asked to still lower their rates of interest on loans granted by them. Do you see any hope of doing that?—I think if Government could lend to the co-operative banks at cheaper rates of interest, they would be able to lower the existing rates. If they are able to attract deposits on lower rates of interest that would also be useful in helping the co-operative societies to reduce the rate of interest on their loans.

As a matter of fact Government at present do not give any loan to the co-operative banks at all. But do you seriously suggest that Government should place funds at the disposal of co-operative societies at a lower rate of interest than they are able to borrow at present?—I think Government should advance to co-operative societies money at 4 per cent. interest, to help the movement.

That is to say, about 1 per cent. lower than the rate at which the British Government is able to borrow at present. Is that not your idea?—They ought to do it because they would be lending out for a useful purpose.

Then do you think that Government ought to use the tax-payers' money for subsidising the co-operative movement at a loss?—Such advances are, in my opinion, absolutely necessary, and will be fully justified.

Professor Batheja : Is there not a danger of co-operative societies misusing this credit placed at their disposal by Government?—I do not foresee any.

Will there not be over-financing?—The Registrar and the Assistant Registrars of Co-operative Societies are there to check over-financing.

Mr. Hodge : Would you agree that the rates of interest at which the co-operative banks lend at present should fall, if at all, only gradually?—Yes. The existing rates at which loans are granted to members of co-operative societies, ranging from $12\frac{1}{2}$ to $15\frac{5}{8}$ per cent., are very high indeed. I think they should be reduced to at least 10 per cent. per annum.

Professor Batheja : Cannot these rates be reduced somewhat by reducing the overhead charges of co-operative central banks?—You mean the expenses of management?

Yes, expenses of management mainly?—So far as I could see these banks are under-staffed at present. I do not think any reduction is possible in the overhead charges.

Mr. Hodge : Do you find all over the Hajipur subdivision that there is a tendency to borrow more on the part of the people generally?—Yes.

And is there a reluctance to repay?—I do not think there is any reluctance to repay.

In your investigations have you found any evidence of the growth of thrift?—So far as the co-operative societies are concerned, I did not find any evidence of the growth of thrift in members. On the other hand, I found the figures of deposits in the co-operative societies very poor.

Would you agree that if the habit of thrift could be developed there would not be the same necessity to borrow and it would be very much less than it is at present?—That is true, but the point we have to consider is whether the cultivators are really able to make regular deposits.

Did you find out why the members of co-operative societies did not deposit in the co-operative banks?—That formed the subject of one of my own questions, and from the informations that I obtained from the 50 members examined by me, I cannot say that anyone gave me a satisfactory answer on this point. They said that they had no surplus cash to deposit in their village societies. I do not believe them. I think that some of these people deposit their savings with the *mahajans* of their villages.

Professor Batheja : What rate of interest do they get from the *mahajans*?—About 9 per cent.

Chairman : You do not think that members of co-operative societies should be obliged to make certain deposits with the co-operative societies?—As a matter of fact we have got such a system in Bihar and Orissa at present in our compulsory share-subscriptions. Personally speaking, I think voluntary deposits, even if they be less, are more encouraging than compulsory ones.

Did you find any indications of reluctance on the part of people to join the co-operative societies because of the principle of joint unlimited liability?—There is some reluctance in the people's minds to join a co-operative society on account of this.

In the Hajipur subdivision were any co-operative societies recently liquidated?—Yes.

Was the principle of unlimited liability applied in the case of those liquidations?—I do not think the principle of unlimited liability had to be applied in those cases.

You say that there should be special rates of interest for loans for the redemption of mortgaged lands which generally carry low rates of interest. Do you mean to say that a man gives his land to the *mahajan* in *zarpeshgi* and the *mahajan* does not make as much out of his land which is in his possession as he would have made out of the money interest on the sum lent out?—I think that is so, because of the safer security offered.

Do you think that it is uneconomic to borrow at 15 per cent. interest in order to get back land that has actually been mortgaged?—I think so.

Have you got any evidence to show what the return is to the *mahajan* from land which he has taken on *zarpeshgi*?—I have no evidence, but I shall endeavour to supply the Committee with evidence later on, on this point, if so required.

R. B. Dhandhanian : You said a little while ago that some *mahajans* are lending out for gambling purposes. What do you mean by that statement?—Only one concrete case was brought to my notice in the course of one of my co-operative surveys and it was an instance where a *mahajan* used to finance boys for gambling.

Professor Batheja : That would be quite an exceptional case, I presume?—That is so.

Chairman : You suggest that generous financial assistance should be given by Government to co-operative department till it is able to do without it. When do you expect that to occur?—I think all depends upon the circumstances under which the co-operative department works in the future. It may be five years, or it may be even ten, provided the department succeeds in enlisting the sympathy of honorary workers in the Province in large measure.

When you speak of the co-operative movement relying on public support which is not forthcoming, I suppose you mean honorary work rather than finance?—I mean both.

But do you not find that in most of the co-operative central banks they get much more deposits than they really want?—They were able to attract more deposits when the rates of interest on deposits were high; but now that they have lowered their rates of interest on fixed deposits, some people are gradually withdrawing or thinking to withdraw their deposits from the co-operative banks, and are depositing the same in the Imperial Bank which provides better security.

Professor Batheja : Have you come across any concrete case like that?—I have.

R. B. Jalan : What is the rate of interest allowed by the co-operative central banks and the Imperial Bank on fixed deposits?—In the case of fixed deposits the co-operative banks pay up to 7 per cent. while the Imperial Bank rate is about 4 per cent. on deposits for five years.

Chairman : How do you reconcile your present statement with the other statement of yours that the central co-operative banks are overflowing with deposits and enlightened people trust them?—I was referring to the co-operative banks when they were paying higher rates of interest on their fixed deposits.

Professor Batheja : You think that the village co-operative societies cannot be trusted to use cash credit to the best interests of its members?—Some of the village societies will be able to do so, especially those where there are enlightened and well-educated men as members.

Do you think that the central co-operative banks are exercising control over the advances of money to members of village societies?—Yes, there is a large interference at present in these advances.

Is this interference justified?—Personally, I think this interference is not called for in the case of village societies where there are a large body of literate members.

Do you think literacy and responsibility go together?—In some cases it might not, but we can expect educated men to be responsible as well.

Mr. Hodge : The main officers of the central co-operative banks are distinct from the officers of the co-operative department, are they

not?—Yes, they are. I am referring to the control exercised by the supervisors and the managers who are servants of the banks.

Chairman : And the local auditor?—I exclude him.

Professor Batheja : Do you anticipate losses if cash credits are given very freely to primary co-operative societies?—If advances are made in undeserving cases, there might be losses.

Is there any danger?—Of course there is the monopolisation of loans by the *panches* of village societies being **one**.



सत्यमेव जयते

Tuesday, December 10, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. HODGE.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. BATHEJA.

Rai Bahadur RADHA KRISHNA JAIAN.

Note by Mr. S. N. DAS, Postmaster-General, Bihar and Orissa.

Under the rules of the Department, every post-office is authorised to keep a certain amount of cash in hand to meet its immediate requirements. All amounts in excess of such requirements are remitted by the post-office to the local treasury or sub-treasury, or where there is no local treasury, to some convenient post-office which is called cash office. Where there is a branch of the Imperial Bank of India, the money is remitted to that bank but the *chalan* is required to be signed by the local treasury officer. Similarly, when any amount is required to be drawn from the treasury and where there is a branch of the Imperial Bank, the requisition for the amount to be drawn is passed by the treasury officer and is then presented to the bank. All transactions are thus made with the treasury officer and the Imperial Bank is merely the custodian of cash so far as the post-office is concerned. No transactions are made with co-operative societies.

2. A statement showing (a) the amount deposited and withdrawn in the post-office savings bank of this Province during the year 1928-29, (b) the number of money-orders issued and paid together with the amount, and (c) the amount invested in cash certificates during the same period is appended.

Statement showing the amount of savings bank deposits and withdrawals, the number of money-orders issued and paid and amount invested in cash certificates in the post-offices in the Bihar and Orissa Circle during the year 1928-29.

Savings bank.		Amount invested in cash certificates.	Money-orders issued.		Money-orders paid.	
Deposit.	Withdrawal.		Number.	Amount.	Number.	Amount.
Rs. 1,58,80,660	Rs. 1,35,73,092	Rs. 20,45,679	28,33,200	Rs. 6,40,09,003	37,52,014	Rs. 7,39,25,994

JOINT REPLY TO THE SIMPLE QUESTIONNAIRE FOR POSTAL OFFICIALS BY KHAN BAHADUR SYED AZHARUL HAQ, ASSISTANT POSTMASTER-GENERAL, BIHAR AND ORISSA, PATNA; MR. K. P. MISRA, ASSISTANT POSTMASTER-GENERAL, BIHAR AND ORISSA, PATNA; AND RAI SAHIB PANDIT JAYANAND KUMAR, SUPERINTENDENT OF POST OFFICES, PATNA DIVISION.

Question 1.—Generally the savings are hoarded, but when they come up to a decent amount the educated class put them in a bank, the illiterate villager in buying land and the low class men in buying ornaments. Money-lending is seldom done by ordinary people. As for P. O. officials, they are so hard up that very few of them make any savings. It is not possible to work out the proportions of the uses to which the savings are utilised.

Question no. 2.—A—Savings Bank—

Deposits	1 crore 60 lakhs.
Withdrawals	1 crore 35 lakhs.

B—Cash Certificates—

Issues	20 lakhs.
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C—Money-orders—

Issues	6½ crores.
Payments	7½ crores.

D—Insurance—

Number of articles posted	3½ lakhs.
Value of articles posted	...	...	...	12 crores.
Insurance fees recovered	...	...	...	1¼ lakhs.

E—V. P.—

Number of articles posted	...	...	...	2 lakhs.
Value of articles posted	...	...	...	75 lakhs.

The business generally varies according to the harvest of the year and trade conditions.

Savings bank and cash certificate business are mostly done by the educated class of people, insurance and V. P. by the traders and money-orders by the labouring classes and land-holders. The post-office has no records to show the different classes of people transacting their business and as such no proportion can be worked out.

Savings banks and cash certificate business compare equally with investment in land—

- (a) in point of security,
- (b) more favourably in point of convenience, and
- (c) unfavourably as regards rate of return.

As to money-lending, it gives greater convenience, and fetches a higher rate of return but it is insecure.

Question no. 3.—The advantages of savings bank and cash certificate business are not yet sufficiently known to the rural population.

The rules of savings bank and cash certificate business should be printed in the different vernaculars of the Province and elementary instruction about the business should be given in primary schools and *maktabs*. Some inconvenience is felt by the public in rural areas. The rural post-offices are generally not authorised to do savings bank and cash certificate business, and those that have been vested with savings bank and cash certificate powers cannot make payment independently of their account offices. No vexation or delay is usually felt by the public in respect of these transactions. The business cannot be made more attractive unless the rate of return is increased.

Question no. 4.—(1) The sale of Government securities is already being carried out by the post-office.

(2) The post-office cannot serve as a safe deposit for gold, jewellery, etc., as there is no guarding arrangement in rural post-offices.

(3) The post-office cannot undertake the opening of current accounts as it is beyond the scope and policy of the Department.

The post-office cannot undertake any other business.

Question no. 5.—Surplus money is transmitted from one post-office to another either by mail or through special carriers but not by means of money-orders. We are not in favour of the transactions proposed because it increases liabilities of the post-office and might involve the Department in litigation. We are also not in favour of lending out this money to the public against the security of gold, silver, etc., because we have neither the expert staff nor proper guarding arrangements. The business in the rural areas in this connection is not also likely to justify the employment of such a staff. The question of safeguards, etc., therefore, does not arise.

Oral Evidence of Khan Bahadur Saiyid Azharul Haq.

Chairman : Khan Bahadur, you are Assistant Postmaster-General, Bihar and Orissa?—Yes.

How long have you held that post?—For five years now.

And previous to that most of your experience was in Bihar and Orissa?—Yes.

In answer to question no. 2 of our special questionnaire, you have given certain figures which I take it is for the province as a whole?—Yes.

Are they averages for a number of years?—They are figures for 1928-29 which I have taken from our last annual report.

Is there very much variation from year to year?—No.

That represents fairly well the state of business, say in the last three years?—I should think so.

Professor Batheja : In addition to these figures can you give us also the figures of total deposits of the savings banks in this circle and

the figures of the total amount of money invested in cash certificates in this circle?—I can give figures for savings banks but for cash certificates the figures are not available. I can supply these figures later on.

Could you give us some idea of the organisation of the post-offices in this Province, i.e., what are the kinds of post-offices doing this business of accepting savings bank deposits and selling cash certificates and what function do they perform?—Generally we have got three sorts of post-offices called head office, sub-office and branch office. The head and sub-offices perform all the functions of the post-office and the branch offices are of two kinds (1) departmental offices and (2) extra departmental offices. The extra-departmental branch offices are generally not empowered to transact savings bank business. They have to be vested with these powers by the Postmaster-General if there is demand of savings bank and insurance in that rural locality.

Have not all branch offices these powers?—Not the extra-departmental offices.

Chairman : Do all departmental offices have the power of transacting savings bank business?—They can receive, but they cannot pay.

The sub-office, I gather, is usually situated at subdivisional headquarters?—Yes and also at other important villages.

Professor Batheja : How many district post-offices and sub-offices are there in this circle of Bihar and Orissa?—There are 21 district offices, 452 sub-offices and 1,224 branch offices. Out of these 1,224 branch offices we have got 1,029 extra-departmental offices and 195 departmental.

Have the sub-offices to keep a large sum of money in order to pay out on account of money-orders or withdrawal of savings bank deposits or return of cash certificates?—We have a system of fixed balances which each individual office is entitled to retain in hand.

How is that fixed?—We take the liabilities for the last three months into account and then fix the balance. For example, a certain sub-office has got liability of Rs. 450 a day. We take into account the period in which that office can be replenished with cash if it is required to meet further liabilities. We then fix the balance that this office is entitled to keep as much as Rs. 600 a day. If the balance exceeds Rs. 600, we send the surplus cash to the sub-treasury or the sub-office or the head office.

Chairman : Am I right in saying that you fix the balance at one-third greater than the average daily demand?—We keep about 25 per cent. more than the average daily liability.

Is that the total liabilities or the net liabilities after deducting their intake?—The latter.

Professor Batheja : Are there also balances fixed for the sub-offices?—We have got fixed balances for each office.

That balance provides the fluid resource of the post-office for meeting the calls of the public?—Yes.

What is the balance of a village branch office?—There is no average. It all depends on the amount of work done.

What are the functions of the Postmaster-General in connection with these balances?—The Postmaster-General is the chief administrative authority for the Province and he fixes the balances of the first class head offices only. The balance of the Patna office is fixed by the Postmaster-General and of the others by the Superintendents.

You say that any excess over the balance is passed on to the treasuries. Under whose control does this fund remain in the treasury? Is it the postmaster?—No. We are permitted to withdraw from and deposit into the treasury.

Can you withdraw any amount?—No, there is a fixed limit.

What is that fixed limit?—I cannot tell you, each post-office has got a different limit.

Chairman: Is it not fixed for the whole province?—No.

Is it only the district office that deals with the treasury?—Yes and the sub-offices at subdivisional headquarters, with the sub-treasuries. But not the others.

Professor Batheja: Has the provincial Government any control over these post-offices?—No. The funds are controlled by the Accountant-General, Posts and Telegraphs. He fixes the limit.

Do you maintain any separate figures for your rural business and urban business?—No.

Could you from your experience give us any idea as to what is the amount of business transaction by rural post-offices?—We can give the figures of the business done at individual post-offices throughout.

Chairman: May I ask you to give us statistics regarding savings bank and cash certificates separately for urban post-offices whether district or sub-offices?—Yes.

Professor Batheja: Does your department also maintain figures showing how much of the money-order business is inter-provincial and how much of that business is confined to the province?—No. We have got our own circle of audit. We keep figures for the money-order business done within that audit circle.

What is the area of the audit circle?—Bihar is within the Bengal audit circle. We have Calcutta, Madras, Delhi and Nagpur as audit circles.

By no means can these be supplied?—No.

Is there any tendency for the cash certificates and savings banks of the Bihar and Orissa postal circle to decrease?—There is a tendency of decrease in the cash certificates on account of the reduction of the rate of interest but there is no decrease in the savings bank deposits.

Is the savings bank deposit increasing?—Gradually, I should say.

Is it very slow?—Yes.

Is there any special reason for the decrease in cash certificate and slow increase in the postal savings bank business?—I should think that the reduction of interest in the cash certificates is responsible for the decrease of work there.

Does the recent increase in the rate of interest in cash certificates tend to revive the popularity of cash certificates?—(Rai Sahib, J. N. Kumar.) Yes.

Do you think that one reason for the slow increase of savings bank deposits in post-offices is the increasing competition with central co-operative banks and other credit agencies?—I should not think so.

Is there a general tendency of depositing more money in co-operative banks?—Yes.

Is it because they offer a higher rate of interest than the post-office?—Yes.

Or is it because the post-office has not organised any campaign of making their business very popular with the public?—This is also one of the reasons. I have suggested that the savings bank rules may be translated in different vernaculars and the rules explained by the teachers of primary schools for the information of the public.

Chairman : Do you anticipate a marked increase in the deposits as a result of that campaign?—I understand that they teach the primary school boys how to fill in forms of inland money-orders. If this system is introduced it will tend to increase the savings bank deposits.

Professor Batheja : Are you in favour of raising the rate of interest on savings bank deposits and on cash certificates in order to make it more popular?—It will be against the policy of the department to raise the rate of interest.

Do you think that without raising the rate of interest the cash certificates cannot be popular?—That is my view.

Do you also think that unless the post-office savings bank rate is increased more savings bank deposits cannot be obtained by the post-office?—I think so. But the whole trend of your examination seems to be questions about banking while our bank is not an ordinary bank but a savings bank. We are allowing the public facilities to put in their savings only just to increase thrift and the chief function of the post-office is not its banking business but the transmission of postal articles from one place to another.

Is it not a fact that there are many people in this country who will never trust anyone else except Government?—Yes.

Do you think that the increased rate of interest on cash certificates make them more popular?—Yes.

Do you know it has been the complaint that Government is competing unfairly with joint stock banks and indigenous bankers in attracting money to itself which would otherwise come to them?—I cannot answer that question. I know very little of joint stock banks.

Do you think that the cash certificates facilities which have been given by the post-office are availed of mostly by the middle class?—Yes. But when it was introduced the rural population also contributed a great amount in purchasing the post-office cash certificates.

But now the rural population has no money invested in cash certificates?—They are generally done by middle class men.

Chairman : Was the reason the increased profit which the rural population got during the war or was it the result of propaganda of Government officers?—The latter.

Professor Batheja : Is it not a fact that the rich people who may normally be expected to invest their savings in joint stock banks or indigenous banks buy cash certificates?—No. The higher officials do but not in very large quantities.

Is it not a fact that the object of having these post-office savings bank and sale of cash certificates was to provide opportunities for thrift to the low class and the poor people of this country?—The object of savings bank is certainly thrift.

Was not the object of cash certificates also thrift?—We do not know if that was the object.

Do you think the poor people of this Province avail themselves very largely of these post-office facilities?—They do not.

Would you be in favour of making these facilities more valuable to rural classes by making some modifications in the terms of this sort of business of the post-office. For instance would it be convenient to the post-office to have Rs. 5 cash certificates in addition to Rs. 10 cash certificates for the poorer people?—My own personal view is that unless there is some sort of propaganda work done the cash certificates will not be popular with the rural population. A poor man who has got his savings limited to Rs. 5 or Rs. 10 generally does not invest that amount but wants to have that amount with him for sometime.

Is it not possible that he does not invest because he has no facilities?—I should think that his mentality is to keep that amount with himself for sometime.

Chairman : Is there large business done in the way of single postal cash certificates for Rs. 10?—Yes.

Professor Batheja : Are you in favour of issuing cash certificates in vernacular so that the writing may be understood by the poor people?—Yes.

Are you also in favour of keeping postal savings bank accounts in vernacular, at least the pass books?—No.

Chairman : What is the objection?—It will cause many complications in the working of the business of the post-office.

Can you explain why?—English is now the *lingua franca* of India. The savings bank clerk might not know a particular vernacular and this will cause administrative difficulty.

Professor Batheja : Suppose the pass books are written in the language which is the language of the courts in that area?—Then it will make the business more unpopular.

Chairman : Is there any objection if in the post-offices in Orissa savings bank pass books are written in Oriya unless the client prefers an English pass book?—The post-office is an all-India department and the man is liable to be transferred.

Professor Batheja : Do the villagers who are poor people find some difficulty in transacting business with the post-office on account either of the corruption of the post-office officials or the negligence and carelessness of postal officials?—Generally not.

For instance is any commission charged when a money-order is paid out?—No.

Is there no trace of this abuse?—It is negligible. There is only one inconvenience and that is we do not give those powers of transacting savings bank business to all the post-offices and there is demand sometimes in the rural area for those powers.

Chairman : How do you ascertain that there is such a demand?—We receive applications from the residents of the place.

Mr. Hodge : Is it not possible to extend the savings bank powers to the extra-departmental branch offices?—We are gradually extending that power.

Could you just tell us what is the requisite in order that these facilities should be so extended?—For instance if there is demand by 5 or 6 men who have got their accounts actually standing in post-offices far from the nearest post-office and if there is sufficient safeguard for the post-office to keep its money, we generally invest those offices with the savings bank powers.

Even if they are extra-departmental?—Yes, provided there is convenient provision for safe custody of the money and there is actual demand.

Professor Batheja : Is not the surplus generally sent away to the sub-office or the treasury?—Yes.

In that case does this difficulty of safeguarding the post-office balance arise?—Yes, it does. For instance a man has remitted and then there is a deposit; the office must necessarily keep the money.

Mr. Hodge : Is it not a fact that there is a steady increase in the savings bank business of the Province?—Yes.

And not only in the existing offices doing savings bank business but you are extending the business to other offices?—Yes.

Chairman : Would it be very difficult to give us figures for two years back from your annual reports?—Yes, we can give figures for the last two or three years.

Professor Batheja : What are the arrangements in the post-offices for storing money and valuable letters in the course of transit?—There is an iron safe in every post-office and a hand-box.

Can the post-office store some valuable goods for the public on commission basis?—No.

Why?—It will increase the liability of the post-office and we might be involved in litigation.

You accept registered and insured letters and if you have an arrangement for storing these letters, why should you not be able to store other valuable things on behalf of public?—It would be inconvenient to undertake this business owing to the fact that good many postmasters are very low paid officers in rural areas.

Chairman : Would it not be possible to introduce that facility at any rate in the sub-offices?—We have got no guard arrangements for all sub-offices.

Assuming they were only required to be guarded for one day or one night in the same way as valuables passing through transit in the post-office?—In that case they will have to be stored by district head-quarter offices where we have got only one chaukidar and that is insufficient.

Do you mean to say that even if the ultimate destination of these valuables was the district office it would mean an increase of establishment?—Certainly.

Professor Batheja : Will not this cost of establishment be more than covered by the charge?—I can't say unless I ascertain it from banks.

Chairman : Are you in favour of this scheme?—No. About insured articles, we send them at once to their destination.

Professor Batheja : Supposing ultimately the articles which reach the head office are passed on to the treasury?—There would be no extra expenditure necessary for guarding but still it would involve complications in case of tampering.

Will this business be more troublesome than transmitting your registered parcels assuming that the post-office acts as a transmitting room?—I think there can be no objection.

If such an arrangement was made with the treasury then the business can be taken up by the post-office?—Yes.

Can the post-office with their present organisation or with slight additions to the staff undertake to open current accounts on behalf of co-operative societies, certain *mahajans* and *zamindars* and *goladars* licensed by Government or approved by Government?—No. It would be difficult and dangerous.

In what respect?—Our resources are limited.

Do you not have savings bank accounts?—Yes.

You accept deposits?—Yes, but there is a limit.

Chairman : You say that the post-office cannot undertake opening current accounts?—Yes,

Do you mean by that answer opening current accounts for every person who would like to have one?—First of all I mean that it is against the policy of the savings bank to open current accounts and we close the accounts on behalf of minors if it is suspected that the object of the account is against savings bank rules.

Do you think that there is any strong reason against the post-office undertaking to keep current accounts for a limited clientele for the purpose of receipts only for the present, assuming that some reasonable charge was made for them?—It would involve extra expense and unless some charge was made we could not take this up.

The idea is that the clientele would be limited to co-operative primary societies, licensed *mahajans* if such a system is established, a limited number of rent receivers and licensed *goladars*, if again a system of licensed warehouses is established. Probably the total number of clients of these classes would be about 500 for each subdivision and it might be assumed that it would require each sub-office in the Province to deal with some 70 accounts?—There is no objection.

Do you think that such a system is, at any rate, worth a further enquiry?—Yes.

You think that it would add very much to the difficulty if the post-offices are required to pay out from their current account as well as to accept money in it?—Yes.

The withdrawals would have to be made either by personal application or by authorised agents?—Yes.

Professor Batheja : Could this work of paying out be conducted for a selected class of customers say the co-operative societies?—Yes. They will have to furnish their specimen signature.

Would not the possession of current deposits free of interest be sufficient compensation?—For the deposit we can accept it because it will help us in paying out our liabilities but for withdrawals we cannot do that. We will have to get money from elsewhere.

Does not the question of withdrawal stand on a different footing?—Yes.

For the present demands on account of savings bank and on account of money-lenders where do you keep the fluid resource?—In the post-office and if the post-office is situated at a police-station in the police-station where the money has to be transferred every evening.

So that if fluid resources are necessary for meeting these payments on behalf of central co-operative banks then these can be kept in the same place where the present money is kept?—We would not allow very high balances to be left with a particular sub-postmaster.

In any case if that particular branch office finds it necessary, money could be easily got within a short time?—Certainly.

Chairman : How long ordinarily does it take to replenish the fixed balances of sub-offices?—Generally it does not take more than a day.

There are few exceptional sub-offices at which it might take as much as three days?—Yes.

I understand that cash certificates are not transferable?—No.

But if a man has cash certificates of a denomination higher than the minimum denomination of Rs. 10 he can partially discharge the cash certificate and get the balance of lower denomination on which he continues to get interest?—Yes.

If he holds a cash certificate of the lowest denomination can some advance be made to him by the post-office against the security of the certificate?—That is not allowed. There will be administrative difficulty in allowing it.

What steps does the post-office take to see that the holder of the cash certificate is the person who originally took it out or his heir?—We have got the application for the purchase of cash certificates. His signature is taken there at the time of purchase and when the cash certificate is presented for discharge we compare those two signatures. If we are satisfied we make the payment. If not, we want witnesses.

Suppose the original applicant is dead, what steps do you take to verify that it is held by his heir?—We make enquiries.

R. B. Jalan : Do you not think that if the cash certificates are made transferable they would become very popular, just like *hundis*?—Not necessarily.

What can be the objection to it?—I see no objection.

Chairman : Do you not think that one reason against making it transferable is that it would defeat the principal reason for introducing the system, viz., encouragement of thrift?—Yes.

Mr. Hodge : Would it lead to a greater withdrawal of these cash certificates if they are made transferable?—No, I do not think so.

Professor Batheja : Do you not think that if a man holds a certificate of the lowest denomination an advance might be made to him at a fixed rate of interest by the post-office?—It will mean much work on our hand. We pay very low interest.

Do you not make all these calculations for a savings bank account?—Yes.

Apart from the objection that it will mean a lot of work you do not see any practical difficulty?—In case we have to advance money to a person presenting the cash certificate unless he is the real man supposed to be the holder we shall have to satisfy ourselves as to the identity of the certificate holder.

Will it not happen otherwise that he will not buy at all or present it for discharge much earlier than otherwise?—I would much prefer to have the system of lower denomination of cash certificates in place of the proposed system.

Can the post-office in larger towns where goldsmiths are available advance money against the security of gold and silver ornaments?—We cannot and should not.

Are you aware that it is done in Java by some Government organisation?—I am not aware.

Would there be some special difficulty in carrying on this business?—We have got no experts in the post-office.

Suppose a licensed goldsmith is attached to the office?—Then the question of guarding comes in.

Can the valuables not be passed on to the treasury just as savings bank deposits?—The whole question is if the income derived out of this will be sufficient to meet the cost.

Suppose it does pay?—We are commercial people, we shall then certainly do that.

Mr. Hodge : I am sometimes told that when a depositor dies it is extremely difficult for his heirs to get the money out of the savings bank. Is that so?—It is not difficult. The rule is that if a person dies and if the heir does not present a succession certificate or letters of administration we are not to pay the money before three months. We allow him this time to go to court and obtain a succession certificate. Then if the succession certificate is not produced we start our enquiries and we pay the money.

In the case of rural depositors?—The same procedure. If the amount exceeds Rs. 3,000 a succession certificate is indispensable.

You make your own enquiries in case of small amounts?—Yes.

R. B. Jalan : Are there any amounts outstanding?—Yes, it will be between Rs. 1 and Rs. 2 lakhs.

Chairman : Have you any machinery to ascertain what is the amount of unclaimed savings bank deposits?—Unless we receive the information of the death of the depositor we do not know whether the depositor is dead.

Is there any arrangement to ascertain the death say after ten years if there has been no operation of the account at all?—That is considered as dead account.

R. B. Jalan : What is the limit?—Three years.

What do you do after that?—We ask the depositor to apply to us to renew the account and if the amount is Rs. 10 or less we sanction the renewal of the account but if the amount is more we obtain the sanction of the Accountant-General.

Chairman : If there is no response?—We take no further steps.

Can he or his heirs apply for reopening the account?—The man himself can.

Up to what period?—There is no period.

The money never lapses to Government?—Never.

R. B. Dhandhania : Is there any rule not to deposit the provident fund of a school which is not aided by Government?—Provident funds are deposited by the post-office when they have been sanctioned by Government.

Oral Evidence of Mr. K. P. Misra.

Chairman : Mr. Misra, you are also an Assistant Postmaster-General?—Yes.

What is the distinction between yourself and the Khan Bahadur?—No distinction, he is in charge of a particular group and I am in charge of another.

How long have you been holding your present post?—For about a year and a half.

How long has your experience of Bihar and Orissa lasted?—I have put in eleven years' service in all.

You have heard the examination of the Khan Bahadur on the subject of receiving valuables for safe custody by the post-offices. Are your views more favourable or less favourable than his to this proposal?—I should say I am less favourable to the idea.

Do you see any other objection to the proposal?—The most important objection is that it would increase the liability of post-offices. Secondly, I should say that post-offices are not meant for banking purposes which require special training, whereas people employed in the banks are all specially trained men.

Do you think that the safe custody business is very difficult to deal with?—I do not say it is very difficult but it certainly requires special training.

Professor Batheja : Does it require more training than the ordinary training and experience required to deal with registered and insurance business?—I should think so.

What are the responsibilities of the post-office in regard to receiving insured articles at present?—The postal official dealing with the work has to see that the seals on the insured article are quite intact. Unless he is thoroughly satisfied that the thing has been carefully packed and sealed he can refuse to accept the insured article.

Will any more safeguards be necessary in the case of articles deposited for safe custody?—I cannot say. In the case of insured articles, once an insured article is received at a post-office it is immediately transmitted to its destination and there it is delivered to the addressee forthwith. But in the case of valuables such as gold and silver ornaments, etc., they would have to be sent to the Government treasury for safe custody which will naturally entail additional responsibility.

Would not the responsibility fall completely on the treasury once you get a clear receipt for such deposits from the treasury authority?—

Yes, but complaints may arise later on with regard to the contents of the articles deposited.

Your responsibility in the case of an ordinary insured article ceases the moment you get a clear receipt from the addressee, does it not?—Technically it is so. But sometimes there may be something wrong; the seals may be intact but still the contents might not be there in which case we have to make investigations and this causes a good deal of trouble and inconvenience.

But you are not expected to see the contents of the article insured when you accept the same for transmission?—That is so, but still there is responsibility.

At present you are liable to pay only the insured amount in case of loss?—That is so.

In the case of articles for safe custody also you would have to pay only that amount in case of any loss. Then where is the difference between the two businesses?—Certainly there is difference between the two, entailing more responsibility in the case of articles accepted for safe custody.

Chairman : But in the case of an insured article also the postal authorities are held responsible in the case of any fraud that takes place during its transmission?—Yes.

In one case it is from the private individual “ A ” to the private individual “ B ” and in the second case it is from the private individual “ A ” to the public authority, the treasury. Why should there be greater responsibility or greater difficulty in the second case than in the first?—In my opinion there is a great difference in the degree of responsibility between the two.

R. B. Jalan : Do you not see that there is this difference between the two? In the case of insured postal articles the fact that there is theft or fraud if any is detected soon after the parcel is delivered to the addressee with the result you are able to institute enquiries forthwith and try to find out the culprit; but in the case of articles deposited for safe custody at the post-office it may be that the same is reclaimed only after several months or even years and if any fraud is found out then, it would be very difficult to trace it out. Is this not so?—That is exactly the position. In the case of valuables deposited for safe custody for an unlimited period of time it would be difficult to place the responsibility on any official.

Professor Batheja : Will not the responsibility of the post-office cease as soon as the valuables are deposited in the treasury?—That is true.

What percentage of insured parcels are lost in the course of a year?—It is almost negligible. But whenever such frauds occur, it creates a good deal of trouble.

Chairman : Do you think your objection is so strong that it would be unreasonable even to attempt an experiment of the new business.

suggested?—We can experiment with certain limitations as to the value of the articles kept for safe custody.

Professor Batheja : I am asking you these questions with a view to formulating a scheme for the benefit of the rural population. You do not think the rural population will deposit their valuables in the post-offices for safe custody?—I do not think they will do so, especially their ornaments. And even if they deposit their securities or other valuable possessions, that would mean increase of staff in the post-offices to deal with such business and so forth.

Is it your impression that the richer classes buy a large number of cash certificates from post-offices?—Yes, people who belong to the upper and middle classes do purchase these certificates.

Do you think that the cash certificates are intended for this class of persons?—It may not be the intention of Government, but they are the people who mostly purchase these postal cash certificates.

Do you not think that but for these cash certificates the upper and middle classes would have invested their surplus funds in the joint stock banks or indigenous banks?—That might be so, because in the savings bank deposits we are allowed to accept only up to a maximum of Rs. 5,000 from one person whereas in the case of cash certificates the maximum is Rs. 10,000.

Do you think that if this money is placed with the joint stock banks or other indigenous banks they would be usefully spent rather than keeping it idle in the coffers of the Government of India?—I think so.

Under the circumstances would you suggest a lower maximum for postal cash certificates?—There could be no objection to that.

Chairman : How far would you lower it?—It may be lowered up to Rs. 5,000 which is the maximum now for savings bank accounts.

Professor Batheja : You agree, I presume, that these postal cash certificates are in a way working in competition with the joint stock banks?—That might be so.

You consider that it would not cause any hardship to the poor if the maximum is reduced to Rs. 2,000 in the case of these cash certificates?—It would not cause hardship to the poor people in any case. As a matter of fact they do not buy these cash certificates.

Are you in favour of permitting post-offices to issue savings bank pass books in vernacular?—As a matter of fact we have a rule at present which says that if the depositors desire the entries in the pass books may be made in the vernacular.

Do you consider that cash certificates will also become more popular if they are issued in more than one language?—I do not think so, but on the other hand if the period during which the interest accrues is reduced to three months it would become more popular.

Why do you think that issuing cash certificates in more than one vernacular will not make them popular? Do you not think that people who do not know English will be better able to understand them if

these cash certificates contain vernacular inscriptions as well, just in the same way as currency notes?—We work on the lines of Government securities and only the English language is used in all these documents.

Chairman : But are not Government securities mainly intended to attract the savings of the English-speaking population of India?—There are people who do not know English, but all the same they also invest in them.

Another thing is that it would eat up a good lot of printing charges and stationery. As it is, the whole cash certificate is fully printed up with details in English, and if vernaculars are also to be printed up along with English the size of the certificate will have to be appreciably increased.

Professor Batheja : Why should not these cash certificates be popular in the village post-offices?—In the villages, mostly, people do not know what a cash certificate really means. And as I have already said that if the period during which the interest is earned is reduced, it could be made more popular than it is now.

Are you also in favour of increasing the rate of interest given on cash certificates to make them more popular than they are now?—I think it is necessary to do so. As a matter of fact there were many changes in the same. It was once issued for Rs. 7-12-0, then it was reduced to Rs. 7-8-0, then raised to Rs. 8 and now it is issued for Rs. 7-12-0 in cash repayable five years after date of issue at Rs. 10.

Do you see any insuperable difficulties on the part of the post-offices advancing money against the securities of cash certificates?—It will involve complications in accounting, e.g., calculation of interest. But if the existing establishment in the post-offices is increased, there would be no objection to that proposal.

Do you not calculate interest in the case of savings banks deposits?—Savings banks are intended to encourage the habit of thrift but that is not the object of these cash certificates, so far as I could see.

R. B. Jalan : Do you not think these cash certificates can be discouraged now?—I cannot say whether they could be discouraged.

Chairman : Were five-rupees cash certificates issued at any time?—No.

Professor Batheja : Will there be any difficulty in lowering the value of these cash certificates to Rs. 5?—That will be for the Accountant-General to say.

What is the rate of interest allowed by Government on cash certificates now?—It comes to 5 per cent. per annum.

Do you anticipate any serious difficulty in opening current accounts on behalf of certain approved customers like the co-operative societies, approved zamindars, licensed *mahajans*, licensed *goladars* and so on?—I have no objection if the department has none.

Chairman : Purely for receiving deposits with the limitation that they could not operate on their accounts except through cheques drawn on self. That is the limitation we contemplate. Do you think that limitation is necessary?—In the village post-offices they cannot deal with the cheque system.

Would it not be possible to introduce such a system in the sub-post-offices?—It may not be difficult in the case of sub-post-offices to operate in that business.

Professor Batheja : Will it involve much labour even for the branch post-offices authorised to transact savings banks business?—These village postmasters are paid very small salaries and if they are asked to do this additional work they will demand more pay.

But if there is increased income to the department then you will have no objection to introduce this system?—That is a thing which has to be worked out.

Can payments also be made on behalf of central co-operative banks to outlying village societies where there are post-offices?—As a matter of fact we are now allowing co-operative societies to have savings bank accounts with the post-offices.

Chairman : Would there be any difficulty for sub-post-offices which keep such accounts paying against the account of the primary society in favour of a central co-operative bank?—There may be practical difficulties.

Professor Batheja : Will it not involve only some additional correspondence in regard to this work?—I think the sub-post-offices may be asked to do this work and not the branch post-offices.

Mr. Hodge : But you recognise that it will be a distinct advantage to the village co-operative society if it could be done?—Yes.

Professor Batheja : Will there be any serious difficulty on the part of the post-offices in the larger towns advancing money against the security of gold and silver ornaments?—There will be good deal of difficulty about it. We will have to employ wholetime experts and goldsmiths to find out whether the ornaments are genuine or not. And after all it may not be possible to trust these goldsmiths.

So you think that the business will not thrive unless it is conducted on a large scale?—I think so.

Chairman : Do you not also think that for this particular type of business it will be better to rely on the existing credit agencies such as indigenous bankers?—Yes.

Professor Batheja : Would you advocate the supervision of the operations of the existing credit agencies by Government?—That would be better.

Mr. Hodge : Do you see any prospect of extending savings bank business in rural areas?—Would you favour savings bank facilities

being given to the extra-departmental branch offices of co-operative societies?—We are extending the business as much as possible.

Professor Batheja : But is it true that these savings bank facilities are not given to the extent desirable?—They are given to the extent desirable but not to the extent to which the department can give. We are prepared to give the savings bank facilities to each and every post-office provided there is enough business.

Have you ever tried this with any post-office and had to withdraw savings bank business for want of enough business?—There is no case on record but we have withdrawn the savings bank business from certain branch post-offices for the reason that there were frauds in some transactions.

Mr. Hodge : Do you think if the facilities were provided on a larger scale the agriculturists would take advantage of these savings banks?—I agree, but at present the agriculturists mostly do not resort to the savings banks because they do not understand the advantages of the same.

Professor Batheja : So you think some propaganda will have to be done?—Yes.

Oral Evidence of Rai Sahib Pundit Jayanand Kumar.

Chairman : Rai Sahib, you are Superintendent of Post Offices, Patna Division?—Yes.

Are you in a position to give us a rough estimate of the average fixed balances of different classes of post-offices?—We have got two balances; one is minimum and the other is maximum and the Superintendents are the authorities to fix the balances except in the case of first class head offices. In my capacity as Superintendent of Post Offices, at Patna, I fix the balances of the Patna Division post-offices. There the average balance of branch offices is about Rs. 300, sub-offices Rs. 700 and district offices Rs. 10,000 to Rs. 15,000 maximum. These are the highest amount that the postmasters can keep without being called upon to submit explanations.

The minimum amount is that which he must always keep. The minimum ranges from Rs. 10 for branch offices, Rs. 100 for sub-offices and Rs. 5,000 to Rs. 10,000 for district offices.

Professor Batheja : You get a large income from insurance business. What is insured post used for?—Chiefly for trade purposes.

Is it for remitting currency notes?—Yes, mostly.

Have you got experience of the working of branch offices?—Yes.

Is it true that the ignorant villagers are put to some trouble when they have some transaction in the post-office?—No.

Is any commission charged when they withdraw some money from the savings bank?—No.

Is anything deducted when money-orders are paid out?—When the postmen pay money-orders in villages they do not deduct but they do get something. We have recently increased their pay and the maximum is Rs. 37-8-0 per month in rural areas. The evil has almost disappeared.

What is the *dasturi* generally given?—It used to be anna 1 or annas 2.

Is *dasturi* given also when a cash certificate is cashed?—No. Cash certificates were originally started for the sake of the villagers when war was going on and we worked hard with the District Officers to raise as much money as possible. Now that has disappeared from the villages and it is confined to towns and to the educated classes so the question of *dasturi* does not come in.

Chairman : Do you think it would be any advantage to attempt to revive the use of cash certificates in the villages?—There is good room for it. Firstly, in villages English education is lacking and we have got all the forms of application for purchase of certificates and all dealings in English. If we start dealing in vernacular rather than in English, it is likely to popularise among them. The same applies to savings bank. There is a rule to use the vernacular of the district but it is not done.

Would you suggest propaganda for that purpose?—I would suggest change in our rules. Of course, it is my personal opinion. When a depositor is required to give his specimen signature at the time of opening of an account and if he gives it in Hindi it should be understood that the pass book should also be in Hindi.

Could you suggest any other obstacle to the popularity of cash certificates and savings bank?—The people consider that they are being harassed if it is said that the signature does not agree with the specimen, though I think that is the principle of every bank.

Do you think that there would be any serious administrative difficulty about providing clerks in the post-office capable of keeping savings bank accounts in the vernacular of the district?—No. Transfer is unavoidable but it is confined to the division unless they get selection grade appointments.

Is it not possible to introduce the teaching of savings bank rules into the school?—In villages most of our post-offices are in charge of school masters.

What happens in the case of a man who cannot write?—His thumb impression is taken and that thumb impression has to be attested by a person known to the postmaster.

Is it your experience that there is steady expansion of the number of post-offices entitled to deal with savings bank account?—If I may say, I would say that it is not in the proportion in which I would have wished.

Is that because there does not appear to be much demand or do you find it difficult to staff the branch offices?—Every branch office

cannot perform savings bank business without the sanction of the Postmaster-General and that is in itself an obstacle in extending the savings bank business.

Mr. Hodge : Do you consider that the present conditions would justify a branch office doing post-office savings bank work or is it too difficult?—I think it is quite easy.

Do you think the conditions can be complied with easily?—Yes.

Professor Batheja : Do you think the village school master who generally carries on post-office business is qualified for conducting savings bank business?—Yes. Provided there is some change in the forms, his knowledge of English is too meagre.

Would you be able to tap fresh sources of staff if you did some of your business in vernacular?—Yes

Are you in favour of reducing the denomination of postal cash certificates?—I am in favour of it, but I do not think it is necessary.

Why do you think it unnecessary?—Because in the course of my recent inspections of post-offices, I have seen that the cash certificates of higher denominations are being sold in much larger numbers than cash certificates of lower denominations.

Is it not because the richer men all buy these classes?—But there is not much difference between Rs. 5 and Rs. 10.

Do you think this demand will not arise even after suitable propaganda amongst the masses?—There will be demand for Rs. 10 but I say that I have looked into this and found that Rs. 10 cash certificates are sold in very small numbers.

Are there not many villagers who cannot afford to buy Rs. 10 cash certificates but might be induced to buy Rs. 5 certificates?—There are some people who can buy Rs. 10 certificates but they are not buying.

Chairman : What is the area of your charge?—Patna and Shahabad districts except Patna town.

Would it be very difficult for you to give the scales during this year in your division showing the amount bought in different denomination?—I can obtain the figures.

Professor Batheja : Have many demands for opening new branches been refused by the Postmaster-General?—We have been very liberal in extending facilities in rural areas and the number has increased by leaps and bounds.

Chairman : Would you care to supplement the evidence which you have already heard from the two other officers of your department on any particular points on which you are able to speak for your district?—Only one point regarding the opening of current accounts. We have got in the post-offices two classes of offices, one which pays out more than it collects and the other which pays out less than it collects. The former class is found where people go to Calcutta, etc., and send money home. In such offices it would be advantageous to have current accounts opened with co-operative societies and *mahajans*. We do so in case of

canal collections and we are going to adopt that system with *tari* (toddy) collections. We can do so too in the case of railway construction and so on. So similarly we can adopt this method to the advantage of the department but not in offices where we already collect more than we pay. These are offices chiefly in the collieries and other places from which people remit money home.

From your experience of Bihar and Orissa as a whole, would you say that the former class of office predominates?—I was in charge of Cuttack also. The offices there are all paying offices. In Bihar also most of the districts are paying offices.

(The witness withdrew and was requested to appear before the Committee again on 12th December 1929.)

Oral Evidence of Rai Sahib Pandit Jayanand Kumar on the 12th December 1929.

Chairman : Rai Sahib, I have asked you to come again in order to give evidence about the post-office co-operative society. Would you kindly describe as briefly as possible what the organisation of that society is and what is its financial position?—This co-operative society is open to all classes of postal officials from the Postmaster-General downwards to a mail peon. We have got more than 1,200 members and about Rs. 50,000 has been subscribed as shares. Last year the fixed deposit amounted to Rs. 52,589 at the close of the year. It has gone up further this year. The actual working capital is more than Rs. 1 lakh because we have also taken loans from other co-operative societies.

From what co-operative societies do you get your loans?—From the Bihar and Orissa Provincial Co-operative Bank and we also have taken loan from the Provincial Civil Service Co-operative Society.

R. B. Jalan : What is the rate of interest?—We pay 6 per cent. to the Provincial Civil Service Co-operative Society and 7 per cent. to the Provincial Bank.

Chairman : What is the main function of the society; to give short-term loans?—Yes. We had some very bad cases of money-lending to postal officials. They used to pay at the rate of 2 annas per rupee per month as interest to Kabulis and other money-lenders.

At what interest do you lend?—At 9½ per cent. per annum.

How long is the loan usually out?—Three years.

You do not lend for longer periods?—No.

You usually fix the *kists* when the loan is given?—We deduct the amount from the salary of the officials.

Do you fix the time within which the loan is repaid?—It is fixed according to the wishes of the borrower. He is not allowed more than three years to repay.

What amount of loan did you give out during the last year?—Rs. 82,183.

You have very little difficulty I suppose in recovery?—Absolutely no difficulty except in the case of death.

What amount of loss do you suffer from that cause?—Very small. Up to two months' pay we give without security so in case of death we only lose up to two months' pay of the borrower. Beyond two months we take security, personal as well as by assigning policies.

You deal actually with policies?—Yes and personal securities.

What do you mean by personal security?—I mean surety by somebody else.

Up to what amount do you lend on a single transaction?—Up to six months' pay.

What is the maximum sum that has been actually given?—Rs. 5,000.

Mr. Hodge: What proportion of the employees are members of this society?—Are all of them members?—All officers are not yet members.

Could you tell us what is the proportion?—About 25 per cent.

For how many years the society has been in existence?—I started working in 1922.

Is the proportion still increasing?—Yes.

Have you any system of compulsory deposits in the society?—No.

Chairman: Is there any saving agency as well? Are members allowed to deposit? You say about Rs. 52,000 has been deposited in the society. Could you give us any figure of the amount deposited by the members themselves?—They are all by members.

Do you take no deposits from outside?—No.

Mr. Hodge: How do the members who are out in the mufassal get their loans?—We send them either by money-order or by a cheque if there is a local co-operative bank.

Does it take long for a loan to be given to a member in the mufassal?—It does not take very long.

All the loan applications have to be decided here in Patna?—Yes.

Chairman: What is the managing committee of the society?—It consists of nine members—the Postmaster-General is ex-officio Chairman and I have been the Secretary ever since its start and seven other members.

Are you elected Secretary annually?—Yes.

Are these members drawn from the various ranks in the postal department?—Yes.

Is there any definite rule laid down?—Yes, each branch of the postal service is to be given representation. There is the Railway Mail Service, Telegraph Engineering and Telegraph Traffic, etc.

How are the office bearers elected?—At an annual general meeting at which all members may attend if they can.

Do you find people coming from any distance for attending the general meeting?—About 15 to 20 members come from the mufassal.

And I take it that their point of view is given a considerable amount of weight?—Yes. In considering the loan applications also we give preference to mufassal people.

Mr. Hodge : Is it on unlimited liability basis?—It is limited.

Professor Batheja : For what objects do you lend money to the members?—We generally find that applications are received for liquidation of debts. Loans are also taken for marriages, *shradhs*, house-building, etc.

To whom are those debts owed?—To money-lenders and local *mahajans*.

Is that also the condition of other ministerial officers in this town?—They have also got ministerial co-operative societies. Formerly they were in the clutches of the *Kabulis*.

Do you declare any dividends?—Yes, 8 per cent. annually.

Is there any maximum fixed?—12½ per cent.

Does every borrower become a shareholder?—He must be a shareholder. One-tenth of the amount borrowed must be held in shares.

Are there any members who have succeeded in freeing themselves from debt and after this freedom have continued to be members?—Yes.

Is it only the dividend that attracts them?—Yes, and we have made a change in the by-laws that loan will not be issued to members who have not been members at least 30 days before.

What is the number of members who have become free from debt?—About 300.

Does your society discourage unproductive debts?—Every application is scrutinised.

Do you discourage loans on marriages, *shradhs*, etc.?—That we can not do. They are obligations.

Do you cut them down?—Yes, but we do not reject them.

The amount of loan for the purchase of land is only Rs. 2,000. Is it because purchase at that rate of interest will not pay?—I do not think so. They are all salaried men and they do not want to purchase land.

Is the kind of land they purchase for house-building?—Yes.

Do they buy new houses also?—Yes.

Have you got any scheme of financing purchase of house for the postal employees at a low rate of interest?—We have not got any such scheme.

Are the postal employees conveniently housed?—Yes.

Have you ever thought of the possibility of starting a co-operative house society something on the lines of Bombay and Karachi?—No. We have got a building house society of which I am a member. We are awaiting to see how it works.

What is that society?—The Pioneer House Building Co-operative Society.

Is that for building houses only in Patna?—Yes.

Mr. Hodge : Has that society been registered by the Registrar of Co-operative Societies?—Yes.

Professor Batheja : Is that meant for well-to-do classes?—They are thinking of opening it for ordinary class of people also by lowering the area of land.

Is there plenty of land?—Yes.

How many members have joined the society?—I think about 200.

At what rate of interest will you get money from Government?—That we do not know yet. The Provincial Bank has already advanced Rs. 30,000 to the cash credit of the society at the rate of 6 per cent.



सत्यमेव जयते

Thursday, December 12, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. HODGE.

Rai Bahadur RADHA KRISHNA JALAN.

**Note by Mr. E. S. HOERNLE, I.C.S., Deputy Commissioner,
Santal Parganas.**

I have little to add to the valuable and interesting report submitted by Babu A. G. K. Lal whose conclusions are in my opinion applicable to the whole district of the Santal Parganas. There are one or two points which I would like to emphasize. It is true that dishonest *mahajans* in this district sometimes evade the usury law of the Santal Parganas by making illiterate villagers sign for larger amounts than those which are actually advanced, but I am inclined to think that the extent to which this is done is overestimated. The law on the subject is well known and, if a *mahajan* demands from a *raiyat* a much larger sum than that which he has actually given, the *raiyat* is likely to object. The case then comes to Court, and it is not often very difficult to ascertain the truth. I believe that officers are apt to draw false conclusions regarding the prevalence of practice from the fact that naturally it is those cases in which the *mahajan* has attempted to cheat the villagers that come to Court. Even assuming that such cases occur with any frequency, and that in some cases the *raiyat* is willing to receive less money than that for which he signs as a condition of getting the loan, it remains that the legal limitation on the rate of interest has an immense effect. I believe further that the restriction of interest to simple interest and ultimately to the amount of the principle advanced is of even greater value than the restriction on the annual rate of interest. Even an educated man finds it difficult to appreciate the appalling speed with which loans on compound interest can increase, but no *raiyat* with the most elementary knowledge of mathematics can fail to calculate the ordinary rates of interest and any *raiyat* who is not a congenital idiot can understand the law that interest must not exceed the principal. So long as interest is confined to simple interest I do not think 25

per cent. is too high. To reduce it would tempt *mahajans* to greater malpractices. I think it strikes the happy mean. Further in my experience *mahajans* by no means invariably charge 25 per cent. I have seen a great many bonds in which $12\frac{1}{2}$ per cent. or even less is charged. It might be suggested that in such cases the real principal sum is less than that entered in the bond, but, having regard to the limitation of time for filing a suit, I hardly think that the *mahajan* would ordinarily prefer to advance Rs. 60 at $12\frac{1}{2}$ per cent. calling it Rs. 80, to lending a real Rs. 60 at 25 per cent. We have also to remember that all *mahajans* have to face a certain amount of bad debts and also legal expenses in suits which cannot be fully recovered under the rules relating to costs. The very fact that the usury law has worked successfully for over fifty years in this district is a proof that it can be worked, and I do not understand the objection of Government to extending this law to other rural areas even if it be decided that it is unsuitable for municipalities and industrial areas. Many of the abuses connected with money-lending are such as can be checked only by the growth of education and no law and no system will prevent occasional successful attempts at dishonesty, but this limitation of interest to simple interest at a comparatively low rate is one which, as experience shows, it is simple to impose.

**Babu A. G. K. LAL, Subdivisional Officer, Dumka, district
Santal Parganas.**

Part I—Question 1.—The cultivator in this subdivision obtains finance for his agriculture and other needs through the following sources :—

- (1) local *mahajans* including a few well-to-do *raiylats* who also do money-lending,
- (2) professional money-lenders such as Kabulis and Bairagis,
- (3) Co-operative credit societies, जयपुर
- (4) Government.

Government loans both agriculturists and land improvement carry interest at $6\frac{1}{4}$ per cent. per annum.

There are a few grain *golas* in Damin-i-Koh Government Estates under the supervision and management of Government from which paddy is lent out on 25 per cent. interest (*sawai*) to Government *raiylats*.

Sankara Wards Estate has also similar *golas* from which paddy is lent out to its *raiylats* on *sawai* interest. The rate of interest charged by co-operative societies is $18\frac{5}{8}$ per cent. per annum.

Kabulis and *Bairagis* deduct one anna per rupee as *salami* when lending out and then charge 50 per cent.—the total loan with interest being repayable after the next harvest.

Local *mahajans* charge the following rates of interest :—

25 per cent. per annum on cash loan.

50 per cent. (*derhi*) on grain loan repayable after the next harvest but even if the *raiyyat* fails to repay then the interest does not increase.

100 per cent. (*doguna*) on seed grains, other conditions being the same as above.

Raiyati lands not being saleable or mortgageable in the subdivision except in a few villages in Muhammadabad loans are advanced on the personal security of the debtor, the ultimate security being the produce of the fields or his cattle.

On a rough estimate about 80 to 90 per cent. of the cultivators stand in need of loans at the time of cultivation. Very few *raiyyats* take loans for purposes of land improvement or for purchase of improved implements.

Santal *raiyyats*, as a rule, do not borrow for expenses of marriage or *sradh* but non-Santal *raiyyats* do. Loans are frequently taken for purchase of cattle, for seed, as well as for other household expenses, *e.g.*, food and cloth; but the bulk of the loan is taken in grains.

The co-operative movement in the district is of a recent growth. The number of village credit societies are yet very few and afford relief to a very small number of *raiyyats*.

The Government agricultural loans are usually given in the years of distress where scarcity prevails. *Kabulis* or *Bairagis* lend cash only on exorbitant rates of interest (50 per cent. or above) repayable strictly on the close of the next harvest. Besides they advance only very small amounts which they feel sure to realize when the next harvest is ready.

Thus it is that the bulk of the money-lending is in the hands of the local *mahajans*.

The *mahajani* has been in existence in India from time immemorial. In the present state of India it is a necessity. He alone is in a position to timely meet the bulk of the requirements of the cultivator.

Government loans cannot possibly replace the *mahajan* because no system of Government loan can be made as elastic as that of the *mahajan*.

But the chief defect in the system is that there are good, bad and indifferent *mahajans*. But the class of bad one predominates and they are out to exploit the cultivator. The cultivator, on the other hand, is both hopelessly illiterate as well as improvident. In borrowing he never calculates whether he would be able to repay nor he can distinguish between a productive and an unproductive loan. The *mahajan* imposes no sort of restriction on his borrowing as long as he feels that his investment is secure. The cultivator keeps no account; it is the *mahajan* who does it and by dishonest manipulation of the same he realizes from the cultivator much more than he would be legally bound to pay. Once in the clutches of the *mahajan*, a cultivator is at a loss to get out of it. He

yields to all the demands until it reaches the breaking point and then only the matter is brought to the court.

Under section 6 of Regulation III of 1872 (Usury Law) there are limitations regarding the decree to be passed about interest on loans. The limitations are quite salutary but it affords relief to only a small percentage of *raiya*s whose cases come to court. Outside the court, the *mahajan* goes on realizing high interest and the *raiya* is helpless.

In my opinion no amount of legislation can wipe out the *mahajan*. Undue restrictions, if imposed on the *mahajan*'s lending, may lead to more distress to the cultivator as it might lead *mahajans* to restrict their business.

The only way by which the *mahajans*, at least the usurious and unscrupulous ways of the *mahajans*, can be replaced is by the spread of literacy amongst the cultivators and by the growth of co-operative movement on sound lines and more specially by the habits of thrift inculcated by that movement. Spread of education and the practice of thrift are the only two means to save the cultivator from his own reckless borrowing and from the wiles of the *mahajan*.

A sound co-operative credit society dealing in cash or in grain (*grain gola*) in every village can alone replace the *mahajan*. But it is a question of time.

There is at present no co-ordination among the various credit agencies including Government.

In my opinion no co-ordination is practicable between the different agencies except between the Government and the co-operative banks. With the growth of the movement the Government can very well give out the agricultural as well as land improvement loans through co-operative banks. In view of the importance of the movement for the betterment of the cultivator in every direction Government has been rendering every possible help to the movement and this appears to be the only line in which Government activities may further be extended.

I have consulted several *mahajans* in my subdivision and they look askance at any proposal by which their money-lending accounts may likely be opened to scrutiny by Government officers.

In the circumstances I do not think any proposal to render them monetary or other help in return for more publicity of their accounts will meet with approval by them. Nor do I consider such a course desirable. Any money which Government can spare for the purpose should be invested through co-operative banks.

Part I—Question 2.—Principal crops are paddy and *makai*. On a rough estimate the cultivator sells 10 annas of his marketable produce at local *hats* and 6 annas of his produce are purchased from him at his house by *banias* and others who go round from village to village with pack-ponies for the purpose.

They are generally purchased by a few wealthy *mahajans* at different local centres and stored for local consumption.

There being no railway within the subdivision the transport difficulties prove a great handicap to any export of the local produce. On account of this there is very little export of paddy or *makai* from this subdivision except from places comparatively close to the railway station.

So long as the transport difficulties continue and the cultivator is illiterate there is no likelihood of any successful pooling organization for marketing of the produce.

Local *mahajans* do all the financing necessary for marketing from out of their own funds.

Part I—Question 3.—The value of the land, as allowed in Land Acquisition proceedings including 15 per cent. compensation, are as below (per acre) :—

			Raiyati interest.	Proprietary interest 20 times rent.
Dhani I	...	...	400	60
Dhani II	...	...	300	40
Dhani III	...	...	200	20
Bari I	...	...	250	20
Bari II	...	...	50	5

It is very difficult to differentiate the value of the land under the three heads (a), (b) and (c) since *raiya* lands are not saleable in this subdivision.

Part I—Question 4.—Under Santal Parganas Regulations *raiya* lands in the subdivision are not transferable. There are no banks in the subdivision for long-term loans.

The *raiya* of this subdivision requires small loans for purposes of cultivation only. What is essentially necessary is the growth of co-operative credit societies or grain *golas* in every village. No institution for long-term credit is necessary here.

Part I—Question 5.—I do not know of any such estimate in this subdivision.

It is very difficult to suggest any uniform measure for collecting such statistics. To my mind, the *raiya*s would look askance at any attempt in this direction by any Government agency and are not likely to give out the correct figures. In this subdivision, however, a good deal can be done through the agency of *Pradhans* and *Sardars* who are *quasi*-official agencies.

To such men the cultivator would disclose his indebtedness without any reserve.

Part I—Question 6.—There are no mills, etc., in this subdivision. A little amount of *gur*-making is done towards Raniswar and Hansdiha sides where *raiya*s grow sugarcane.

To my knowledge the cultivator has no small industries allied or supplemental to agriculture. The Industries Department has been doing propaganda for such small industries as toy-making, dyeing, carpentry, smithy, weaving, lac-making, etc., but they cannot be of general application. Hand-spinning and ericulture may be introduced generally and they do not require much capital.

In Dumka Damin I have been trying to introduce ericulture to some extent as it can be taken up by anybody and everybody without much trouble or expense.

But the additional income to the *raiyats* from their home industries is not likely to be very appreciable and this is the chief reason why they do not prove attractive.

Cultivation of lac by *raiyats* on their own trees can also prove very remunerative.

Part I—Question 7.—Co-operative credit societies are of very recent growth in this subdivision and no difficulties have been experienced yet in the matter of capital.

The Central Union obtains its capital from deposits and from loans from the Provincial Bank. Only short-term loans are required in this subdivision.

There are no joint stock banks in this subdivision.

Part II—Question 1.—The indigenous banker in my subdivision lends money and grain and trades in cloth and grain.

Part II—Question 2.—They are of very great help in financing agricultural people. They finance trade to a small extent but they do very little to help the industry since there are very few industries in existence.

Part II—Question 3.—The indigenous bankers are scattered all over the subdivision even in the interior villages. It is difficult to guess the amount of capital invested by them or about the volume of their business. Their expenses are very little. The small banker does everything finish with the help of his family members without any extra establishment. A comparatively big banker has to keep few *paidas* to make demands and one or two muharrirs or *gomastas* for writing out his books. There is very little of co-ordination between one banker and another or with co-operative banks. As has been stated before there are no joint stock banks or any branches of the Imperial Bank of India in this district.

Part II—Question 5.—The grant of cash credits by indigenous bankers is practically unknown. In dealing with question 1 of part I, I have already indicated the terms of the loans. Almost all of these bankers carry on their banking with their own capital. It is only a few traders in cloth and grain, etc., who occasionally take loan in cash or in kind from big bankers to carry on their trades. The usual rate of interest charged from these traders in this subdivision is 10 to 11 annas per cent. per month. There are very few bankers who receive

deposits. In Dunka town itself, there are only two or three, and they allow interest on deposits at the rate of 6 to 7 annas per cent. per month.

Part II—Question 6.—Already covered in my answer to question 1, Part I. It is certainly very desirable that attempts be made to bring down the rate of interest charged to the agricultural community. As matters stand at present, the high interest is a perpetual drain on the *raiya*'s coffers. What he produces goes mostly to his *mahajan* leaving only a bare subsistence to him and this is why a *raiya* is in perpetual indebtedness. The manner in which this exorbitant rate of interest may be brought down are :—

- (1) Widespread organization of the co-operative societies in villages.
- (2) Establishment of joint stock banks at convenient centres with indigenous bankers as shareholders with a view to finance agriculture primarily. If the local bankers can be made to co-ordinate in this way they should be helped when necessary with finance by the Imperial Bank of India. By working individually the local *mahajans* always run the risk of their accounts being disbelieved in courts and thus losing their claims even when genuine. By working together as a joint stock bank this risk will be very much minimized and will in the long run be to their advantage.
- (3) By legislation. The Usurious Act is not in force in Santal Parganas but we have a special section in Santal Parganas Regulation III of 1872 to check usury. This section applies only to the cases which come to courts and thus is of benefit to a very small percentage of the debtors directly ; but indirectly its effect has been great and has kept down usury in this district to a great extent. The limits laid down in this section were probably appropriate when it was enacted, that is in 1872, but it is certainly not so after the lapse of half a century. The rates of interest have come down since then and there is no reason why a further reduction in the limit should not be done in this section as well. I am of opinion that a definite limit of some kind will be of great help to the agriculturists all over the province instead of the vague limitations laid down in the Usury Act. The mere reduction in the rate of interest or, in other words, cheap credit may prove a double-edged sword to the *raiya*. A good deal of propaganda and spread of education are necessary to show the agriculturists how to make use of the money. Borrowing is not hard if it can be utilized for productive purposes but otherwise a cheap credit will be a source of ruin to him.

Part II—Question 7.—The indigenous bankers are as a rule disliked by the tenantry but are also considered to be an unavoidable

evil as stated before. There are good, bad and indifferent bankers but the dealings of the majority of them with their clientele are conducted on undesirable lines. The agricultural population are mostly illiterate. The loans are taken, the amounts are noted in the *mahajan's khata* and they are made to give their thumb impressions. Ten to one they never know what amount they received and vouched for. Sometimes interest up to a certain period is added to the principal in advance and the whole amount is noted as principal loan taken. There have been cases in which fictitious amounts have been shown as loan over the thumb impressions already taken in the *khata*. When the payment is made the *raiyyat* is again at the mercy of the *mahajan*. The *mahajan* puts down whatever it pleases him to do in the *khata*. The dominant position of the *mahajan* makes it impossible for a poor and agricultural *raiyyat* to see transaction conducted on sound lines. He generally yields. So long as the *raiyyats* continue to be illiterate no amount of precautionary measure can help him out of the difficulty. I am of opinion if anybody requires the protection of law, in any shape or form, it is not the *mahajan* but the *raiyyat*. In the present state of affairs I expect that there will be a lot of improvement if it can be provided by law that every debtor must be supplied with a duplicate copy of the entry in the *mahajan's khata* and that for every fresh entry made in the *khata* a corresponding entry must be made in the debtor's duplicate copy.

Part II—Question 8.—The indigenous bankers in the present state of the country cannot be avoided. They can inspire greater confidence in their accounts both in the eyes of the debtors and the courts if they join together and start joint stock banks. If they do so there should be no difficulty in their being financed when need be.

Part II—Question 9.—It is very difficult to make any approximate guess but after having consulted a number of *mahajans* in this subdivision, I am inclined to put the net return to the indigenous bankers at 15 per cent. on cash loans and 25 per cent. on grain loans.

Part II—Question 10.—My estimate is that in about 20 per cent. of cases, the indigenous bankers refuse accommodation either on account of unacceptable security offered or on account of insufficiency of their own working capital.

Part II—Question 11.—I would recommend the establishment of local joint stock banks in every important centre with as many indigenous bankers as shareholders as possible. Such a bank would inspire the confidence of indigenous bankers and will be able to utilize the local knowledge and experience of the latter.

Part II—Question 12.—I don't think so.

Part III—Question 1.—It is very difficult to say what are the existing banking resources and what is the additional capital required. The only institutions, to my knowledge, in existence for encouraging savings and investment habit are co-operative societies. Percentage of people who can save is very small. Agriculturists as a rule do not or cannot save. A few who do, find ample room for investment either in

land or in money lending. Middle class people particularly in towns deposit their savings in Savings Bank, Co-operative Bank or in Government securities. So long as the investment habit is not more developed, more facilities for investment particularly in smaller interior places would hardly be necessary. At present the only institutions which have been making attempts to inculcate the habit of thrift by various ways, e.g.—

(1) compulsory deposits, (2) homesafe boxes or (3) *Muthia* system, are the co-operative societies.

Part III—Question 2.—The postal cash certificates are popular with middle class people. I have no other suggestion to offer with regard to this.

Part III—Question 3.—I do not see any likelihood in the near future of the small agriculturists going in for Government securities or securities of other banks. The *raiya*s utilize the whole of their produce or any other money that comes to their hands in paying off their rent and *mahajan* and the balance in purchasing the bare necessities of their lives. If there is any saving they go in for ornaments of their females and in exceptional cases take to money-lending. Men of the middle class (pleaders, clerks and other professional men) invest their savings in house building and Government securities. They, too, have to provide for ornaments.

Part III—Question 4.—There is very little of cheque habit in this province.

Part II—Question 5.—I do and I attribute it to the poverty of the people, as well as to illiteracy.

Additional Question 2.—Allahabad Bank and Benares Bank—I have very little idea of their internal affairs.

Additional Question 4.—There is a sufficient scope for banks particularly grain banks, in this district. We have several grain *golas* controlled by Government in *Damin-i-Koh khas mahals* and one controlled by Sankara Wards Estate. They are doing immense benefit to the tenantry and there is ample scope for similar banks in the district. Pawn shops may work successfully at important centres only.

Additional Question 5.—Mahajans do mix up in a single account all kinds of credit transactions such as sale of grain or lending of money. This does lead to confusion in the case of illiterate debtors. It will be to the benefit of the debtor if the *mahajan* can be made to keep separate accounts.

Additional Question 6.—I do not think indigenous bankers stand in need of further protection.

Additional Question 7.—I do not consider this course desirable.

Additional Question 8.—No.

Additional Question 9.—All these class of people obtain their loans in the usual way from indigenous bankers. Establishment of joint stock bank may offer them better facilities than they have at present.

Additional Question 10.—The Usurious Loans Act is not in force here.

Oral Evidence.

Chairman: You are the Sadr Subdivisional Officer at Dumka?—Yes.

And prior to that you had a good many years' experience in the co-operative department?—Yes, for about five years.

And how long is it that you left that department?—I left the co-operative department in 1926.

You say that in your opinion Government can freely give on agricultural as well as land improvement loans to co-operative banks. Are you thinking of the ordinary loans given in most years or the special loans given in times of distress?—I mean loans given particularly in times of distress. Loans for land improvement are given out at any time.

Is it a fact that in times of distress Government grants *takavi* loans on a large scale at a uniform rate of $6\frac{1}{2}$ per cent. interest?—Yes they do.

How exactly would you suggest that they should lend loans through co-operative societies?—Government should place at the disposal of co-operative central banks some money to enable these banks to distribute it among the members of their co-operative societies at the same ($6\frac{1}{2}$ per cent.) rate of interest.

You are not in favour of the principle that if a man is a member of a co-operative society he should borrow from his society at the ordinary rate of interest and he should not be given the *takavi* loan?—I am not in favour of that at all. In times of distress there should be no difference at all between a member of co-operative society and a non-member in regard to the issue of *takavi* loans.

Mr. Hodge: In that case the co-operative society will only be the distributing agency?—Yes, that is my suggestion and there will be less chances of corruption.

Chairman: Have you had recent experience in the granting of *takavi* loans?—Yes, even last year *takavi* loans were granted in the Santal Parganas.

How was it done?—It was paid through the agency of Deputy Collectors.

Was there any suspicion of corruption in regard to the issuing of these loans?—None that I am aware of. If the loans were actually lent out in the presence of the Deputy Collector himself then I do not think there will be any room for suspicion. Otherwise it is just possible that corruption may take place. After all much depends on the personality of the Deputy Collector.

Mr. Hodge : Does he give these loans in the presence of any representative of a *punchayat*?—That is not necessary at all.

Then by the system you advocate you will make the co-operative societies responsible that each man got fairly what he was in need of and limited to a certain sum of money per acre of his holding?—We can leave it to the co-operative banks to fix the limit.

Chairman : Has that system been actually put in practice in your subdivision?—No. The co-operative central bank was started only last year in my subdivision.

If advances are made through the co-operative societies would there not be a danger that the co-operative societies might favour their own members at the expense of non-members?—Loans are to be given to co-operative societies only to be distributed among their own members.

R. B. Jalan : Then would you advocate the creation of two agencies for dealing with the *takavi* loans, one through the co-operative society and the other directly by Government?—That is my suggestion.

Chairman : Would you then suggest in cases of severe agricultural calamity Government should place at the disposal of the central bank in that area sufficient sums of money to meet the needs of the *takavi* loans of the members of the co-operative societies?—That is my suggestion.

Do you suggest that Government should place these funds at the hands of the co-operative societies at 6½ per cent.?—I think it should be something less to enable the co-operative societies to meet the charges of distribution and collection of these *takavi* loans.

What rate would you suggest to allow of that margin?—I would suggest a difference of 1 per cent. If Government would place these sums at 5½ per cent. that should be enough.

Professor Batheja : Would you suggest the same amount for distribution among members of co-operative societies and to non-members?—The Secretary of the central co-operative bank would make an estimate of his requirements and the Collector of the district would also make another estimate for making *takavi* loans direct. So, both the amounts will differ.

Chairman : Is it not necessary at present, in view of the scattered location of the societies, for the officer in charge of *takavi* loans to visit practically every village in order to distribute these loans satisfactorily?—That is what he does not do at present, but I think it ought to be done. At present he prepares a list in advance and gives out the loans at central places.

And would it really be a duplication of agency if the society is to deal with its own members?—I do not think it can really be considered a duplication at all.

Do you hold any official position in the co-operative central bank?—I am the *ex-officio* chairman.

Could you say whether the central bank would be able to give a good estimate of its requirements regarding the grant of *takavi* loans?—Yes, it will be possible to give an accurate and reliable estimate.

Mr. Hodge : Has the cultivator got to make an individual application for loans to the co-operative society or the Deputy Collector as the case may be for these loans?—According to the present rules for direct distribution of *takavi* in time of distress ten or more persons have got to apply in a body giving requirements of each separately.

Then does it mean that they are jointly liable for the loan taken?—Yes, they are made jointly and severally liable.

Professor Batheja : Are different persons given different amounts?—Yes. Nothing definite has been laid down in the rules. It is left to the discretion of the officer concerned.

Mr. Hodge : Do you think the amount advanced is usually sufficient for the purpose?—My own experience is that it is not.

Chairman : Would double the amount that is sanctioned be enough to meet the requirements adequately?—It is very difficult to make any such estimate.

Is it your experience that there is a difficulty in making a sound estimate originally of the amount that would be required for *takavi* distribution?—That is true.

Thereafter a number of applications for loans come in and a great many of them you find are really genuine cases and the amount required has to be largely increased?—Yes.

Is it your experience that there has been no difficulty in getting from the Government whatever amount the Collector says is required for *takavi* relief?—There has been no difficulty at all. We always got the amount we required.

But you find that sometimes there is delay in getting final orders of Government in time to get the money out for distribution before the sowing of the seed?—Yes, there is some unavoidable delay in correspondence sometimes.

Mr. Hodge : Then would you say that the inadequate amount now given out as *takavi* is not due to the lack of resources on the part of Government?—I would say so. Government is very liberal in all these matters.

Your experience will suggest that these *takavi* loans are very popular?—Yes.

Chairman : Have you had any experience of a calamity over a comparatively small area in which *takavi* was not given?—I have had no experience of it myself.

Supposing a calamity were confined to 20 or 30 square miles will Government be prepared to give *takavi* in such cases?—Yes, certainly.

Mr. Hodge : Who decides whether *takavi* is to be given or not?—The decision ultimately rests with the Government but it is decided on the basis of the recommendation of the subdivisional officers' reports.

Have you ever heard of a case where *takavi* loans were applied for and not granted?—None to my knowledge.

Professor Batheja : Once the total amount to be given out as *takavi* has been estimated by the subdivisional officer or the responsible officer on the spot is the loan distributed on a uniform basis at so much per acre?—There is no hard and fast rule in all these matters.

So there is no uniform rate of relief to be given per acre. You say all depends on the discretion of the officers?—Yes.

Chairman : At the same time the Collector has to put down as his basis of estimate that he proposes to distribute so many rupees per acre?—I am not quite sure whether he does that.

Professor Batheja . If *takavi* is distributed through the co-operative societies for the use of the members, would there be a tendency on the part of these societies to give more than these members really need?—Of course there is that tendency.

Do you think the estimate of the co-operative societies should be accepted by the Collector?—Yes, it should be when it comes through the central bank.

But you admitted that there is a tendency to ask for more than what is actually required?—But the central bank through which these applications will have to be forwarded is always there to regulate the loans.

What stimulus has the central bank got to cut down the estimates of the co-operative societies?—It is the duty of the central bank to protect the interests of the societies and check reckless borrowing.

Mr. Hodge : You say that very few *raiya*s take loans for purposes of land improvement or for purchase of improved implements. Can you give your reasons for that statement?—I am referring to Santal Parganas alone. The Santals are very good at reclaiming their own land. They do not generally require extra labour.

Chairman : Have you any idea of the difference between the price for the staple produce (paddy) given by the original buyer to the *raiya* and the price at which the paddy is sold at important towns in the district?—I would not be able to give you any definite figure.

Do you think there will be any difficulty in ascertaining (1) the price at which the *raiya*s actually sell paddy in their villages, (2) the price at which paddy is sold on the same day in the smaller markets and finally the price at which it is sold in the biggest market in that particular area on the same day?—There will be no difficulty at all in ascertaining those details.

Would you be good enough to undertake that enquiry for us and forward to us your report before the 15th of January next?—Yes. I shall do so.

Mr. Hodge : Would that include an explanation on fluctuations on this point if any?—I shall try to give you as much information as I possibly can get at.

Chairman: Do you think there is very much difference between the price which the Santal *raiya* gets for his paddy and the price at which paddy is sold ultimately in Dumka?—I do not think there is very much difference.

You suggest with a view to bringing down exorbitant rates of interest prevailing at present the establishment of joint stock banks with indigenous bankers as shareholders with a view to finance agriculture primarily. By indigenous bankers do you mean the village *mahajans*?—Yes.

Professor Batheja: You have no other class of bankers in view when you make this suggestion not even the town *mahajans* or the city shroffs?—I think they are all the same.

Are malpractices perpetrated by all these classes of money-lenders?—With few exceptions of people who are doing business in a large scale who are quite reliable.

Chairman: Do these *mahajans* lend to agriculturists largely?—Yes, they do.

Professor Batheja: You think the malpractices are confined to the petty *mahajans*?—I think so.

(The Chairman explained to the witness the classification of the term "indigenous banker" for purposes of this enquiry into three classes:—(1) the substantial banker in the bigger towns who lends out money and also attracts deposits; (2) the town *mahajan* who does money-lending business on a restricted scale without attracting deposits and (3) the village *mahajan* who almost entirely confines himself to the village and lends out small sums of money to the petty agriculturists without attracting deposits.)

Mr. Hodge: In your opinion, if joint stock banks are formed should all these three classes of *mahajans* be included?—I think so.

Do you think these *mahajans* would be willing to form themselves into joint stock banks?—I think they will. As a matter of fact even before I received the questionnaire of this Committee I had a talk with a few leading *mahajans* of Dumka and they expressed themselves in agreement with the idea.

Chairman: I notice you say that the *mahajans* are not willing to have their accounts scrutinised. Are you referring to the village *mahajans*?—Yes.

Professor Batheja: How do you regard the idea of creating licensed *mahajans*?—I have no idea what a *licensed mahajan* means.

Chairman: The idea of licensing *mahajans* is to select *mahajans* who have already a good repute in their business in their villages, to give them as far as they require it extra finance at as low terms as can be given and to arrange that they should have the power of recovery on some such procedure as certificate procedure making the debtors accept that condition on the inducement of a lower rate of interest. Do you think that there would be any very great practical difficulties

in establishing such a system even experimentally?—It might be tried as an experiment although I am very doubtful about the question whether we will be able to select the right type of men in the locality to do this business.

You also suggest it will be necessary to exercise some stricter control over the licensee which in practice will be difficult to carry through?—That is so.

Professor Batheja: Do not central co-operative banks exercise strict control over the village societies to see that the funds advanced are properly used?—Yes.

Are not the central co-operative banks controlled by Assistant Registrars of co-operative societies?—They are not controlled but only closely supervised.

Would it not be possible to arrange for similar control or supervision in the case of licensed *mahajans*?—I doubt it.

What will be the difference?—The central banks have got their own by-laws by which every member has got to abide. In the case of licensed *mahajans* any arrangement that will be agreed upon will be between the financing agency and the *mahajan* and not the third person the debtor.

But will not the self-interest of the *mahajan* or his anxiety to retain the license make him conform to the provisions of the scheme?—It will make little difference to him whether he retains the license or not.

Granted that the possession of a license will be considered a special privilege will it not make some difference to him?—I doubt whether he will consider it to be of sufficient importance at all.

Do you contemplate that the abuses by the licensed *mahajans* will be greater than the abuses by Excise or Arms Act licensees?—In the latter case it will be considered a criminal offence and offenders would be seriously dealt with, but that could not be said of licensed *mahajans*.

How do you propose to start the joint stock bank you suggest?—It is all a question of organisation and work and if the Committee decides upon starting of such banks for the purpose of amalgamating *mahajans*, then it could be tried.

Chairman: You have told us that in Dumka some of the *mahajans* are in favour of forming themselves into a joint stock bank. If such a joint stock bank was founded would you recommend any special privileges for it?—If there is any need for finance I would suggest that the Government or the Imperial Bank of India might advance them on reasonable rates of interest.

Would you give them any special facilities for recovery of their debts?—They will have no difficulty in enforcing their debts.

Professor Batheja: In the absence of special facilities is there anything to prevent these *mahajans* from organising themselves into joint stock banks?—There is no initiative at present. Every *mahajan*

does the banking business independently at present. But if propaganda is made in that behalf by Government or other agencies then it will be possible to form such joint stock banks.

Chairman : Is not the special facility of obtaining an award from the Assistant Registrar which is enforceable as a civil court decree one of the reasons why the co-operative movement has been a success?—I do not consider that is an important consideration. In fact the percentage of awards at present is only from 1 to 2 per cent.

Professor Batheja : Then what advantages have the co-operative society?—Lower rates of interest and sure supply of money.

And is not Government audit one of the chief causes of success of the co-operative societies?—Yes, that creates some amount of confidence in the minds of depositors.

Chairman : Would not special facilities for joint stock banks of the kind we are contemplating attract deposits into them?—I think so.

Professor Batheja : Are you against the grant of special facilities in the case of joint stock banks suggested by you?—I am against the grant of all forms of special facilities.

Would you be surprised to hear that the complaint of joint stock banks is that they have to restrict their dealings with zamindars because the litigation expenses are heavy in their case?—It might be so. I am not quite sure.

Is not the existence of the system of award responsible for keeping down the costs of litigation in the case of co-operative societies?—Yes, that is true in a way, but I would say that the award is only the beginning for actual realisation the societies have to go to courts in the usual manner.

Chairman : You say there are grain banks in your subdivision. Are they extending their operations largely?—Yes. They were originally started in 1900 or 1901 with a Government grant of about Rs. 6,000, but now we own nearly 9,000 maunds of grain besides cash certificates, war bonds, etc., to a total of about Rs. 30,000. Our present assets therefore exceed Rs. 50,000 on the whole.

R. B. Jalan : And did you make up all these assets without further grants or help from Government?—Yes, without further grants or any other sort of help.

Chairman : How are the accumulated profits of these grain *golas* disposed of?—They are entirely used in the expansion of the *golas*.

Is any dividend paid?—There are no shareholders and no dividend is paid.

Are these grain *golas* entirely under your control subject to the supervision by the Deputy Commissioner?—That is so but there is also a committee of management of which I am the chairman and there are nine *parganais* who are members of this committee.

Do you think any similar system could be worked in other parts of the province outside Santal Parganas?—I think it could be done.

The only advantage in Santa Parganas is that no trouble is experienced in realisation of dues.

You do not think that the exceptional position of the subdivisional officer as head of the magistracy and also the chief civil court has anything to do with the success of these grain *golas*?—I do not think so. There should be one man who would supervise these things properly.

R. B. Jalan : What is the staff that you have got?—One clerk on Rs. 25 per mensem and two peons in each *gola* and they are paid out of the income from the *gola*.

Chairman :—I take it that every year you are in the habit of selling off a certain portion of the accumulated stock?—I do not do so. On the other hand I am thinking of purchasing more paddy from the cash in hand.

I suppose it is not in any sense a sale society?—Not at all.

Do you keep any seed for sowing purposes?—No, we do not keep any seed at present.

And you think, at any rate, in such areas where grain-lending is common, similar grain banks would prove a success?—I think so.

Are these grain banks registered as co-operative societies?—They are not.

How are they audited?—We are asking the district board head clerk who is a passed accountant to do this for us and we are paying him specially for it.

You have experience in the Chota Nagpur subdivision also?—Yes.

Do you think the establishment of grain *golas* there will prove a success?—I think so.

Would it be necessary to place the subdivisional officer in sole charge there?—It will be much better if it is done in the beginning at any rate.

Has there been any loss or fraud or theft of any kind whatsoever in these *golas*?—None whatever. *सत्यमेव जयते*

While you were in the co-operative department you had some experience of sale societies?—Yes.

Would you give us the benefit of your experience regarding the working of these sale societies?—My own experience is that any attempt at organising a sale society on a small scale will not succeed. Provided there are persons with proper experience and training at the head of its management and provided only if it is worked on a large scale it will succeed.

Are you speaking of sale societies for the big staple crops such as paddy?—Yes.

Do you think that the *raiya*t will be able to save a large amount by the introduction of these sale societies?—Yes, if they convert paddy into rice and keep the rice to sell at favourable market rates then the *raiya*ts will stand to gain much. It may be that in one year out of

ten there might be loss but in the long run there is bound to be good profit.

Do you think the existing marketing organisation is overpaid for its services?—I do not think so.

Would not the effect of sale societies be to some extent to drive out the existing marketing organisation including a large number of small *beparis* who would be thrown out of employment?—They can take up to other avocations.

Is it not the rather thrifty *raiyat* who becomes the *bepari*?—Not necessarily.

Do you not think that before sale societies are established on a large scale it is necessary to look into the "turn" of market prices for some years past?—That is absolutely necessary.

Were such investigations carried out?—Not to my knowledge and that is the reason why so many sale societies have failed.

R. B. Jalan: What dryage would you expect in paddy?—About 3 to 5 per cent. of the stock.

Chairman: You suggest a definite limit should be set up all over the province with regard to the rate of interest that should be charged?—That is my proposal. The Usurious Loans Act is very vague in this respect. In the Santal Parganas we have got a definite usury section which has a very salutary effect.

What is the rate of interest allowed in the Santal Parganas?—25 per cent. interest, compound interest is not allowed and the interest accrued may in no case exceed the principal amount.

Do you think that any interest exceeding that at which a member could borrow from the co-operative society in the area covered by a central bank, should be considered usurious?—Yes.

Or would you place it somewhat higher though not markedly higher?—No, I would not place it higher. I think 15½ per cent. could be considered suitable.

That would mean that every money-lender should be obliged to conform to the rates fixed by the central co-operative banks?—Yes. If after meeting certain expenses of running the business, inspection, etc., the co-operative banks could pay a dividend of 12 per cent. per annum there is no reason why the profit of the *mahajans* should not come to about the same figure.

Mr. Hodge: I find it is suggested that the *mahajans* take more risk than the co-operative societies in granting loans. Is that so?—On the other hand I should think that the co-operative societies with bigger overhead charges than the *mahajans* are charging less than the *mahajans* and still they find it profitable.

Professor Batheja: On the other hand co-operative societies have got very much fewer bad debts than the *mahajans*, is that not so?—Though they say so I do not think that is a true statement.

Chairman : Do you agree with the Deputy Commissioner of the Santal Parganas in advocating the extension to other districts of the limitations imposed by the Santal Parganas Regulation (1) the abolition of compound interest and (2) the provision that in no case shall the interest exceed the principal?—I entirely agree.

Professor Batheja : Do you think the *mahajans* will be able to evade these legal restrictions by recovering some amount in advance?—As a matter of fact the *mahajans* are evading the law to some extent but the evil is not very great.

What is the general rate of interest in the Santal Parganas?—It is 25 per cent.

Do you consider it all right?—I have already said that it is high.

Chairman : Do many cases come before the courts in which there is proof of evasion of the Loans Regulation?—At present the *mahajans* take *salami* when they lend out. The Regulation in Santal Parganas does not make the charging of more than 25 per cent. an offence but if the matter is taken to court then only that rate will be allowed.

Do the courts often have to go back behind the original document and find out what the transaction was? Are they successful in doing it?—Yes, they are trying to do their best in all these matters.

It all depends on the mentality of the courts, I suppose?—That is so. It depends on the pressure of work also.



सत्यमेव जयते

Friday, December 13, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. HODGE.

Rai Bahadur RADHA KRISHNA JALAN.

Babu GOPI LAL AGARWALA, Oil Mill owner, Dinapore.

MEMORANDUM.

The agriculturist in this Province obtain loan from the co-operative societies, village *mahajans* and town money-lenders for all the purposes described in (a), (b) and (c) on mortgage of lands and sometimes on pro-notes.

The rates of interest charged by the co-operative societies is Re. 1 per cent., by village *mahajans* at Rs. 2 to Rs. 1-4-0 per cent. for small loans such as Rs. 100, Rs. 200 to Rs. 500 but in the case of big loans the interest is charged Re. 1 per cent. and sometimes it is 12 annas or even less per cent. per month.

The Government sometimes distribute *takavi* loan to some people in exceptional cases.

The Imperial and the other stock banks to my knowledge help the agriculturist in no way. The village *mahajans* and indigenous bankers advance loans on mortgage of lands.

To my knowledge the co-operative system is the best institution to help the agriculturist provided more liberal advances are made to an individual cultivator on a sound security.

I cannot give any idea of the capital required for the Province. To my knowledge the co-operative societies do not advance loans against standing crop. If this system is introduced it will be a great boon to the cultivators.

MARKETING OF AGRICULTURAL PRODUCTS.

Some of the agriculturists sell their products to the village *banias*, and some bring themselves to the nearest market and store them to

arhatdars (*goladars*) where they get 75 to 80 per cent. advance. The *arhatdars* charge only 12 annas per cent. commission and Re. 1 per cent. interest, and supply the cultivators and *banias* free fooding, stable for their cattle, and they also supply empty bags, free of charge, whenever required. In many cases the *arhatdars* advance the village *banias* money, without security to encourage them to bring more products. The *arhatdars* sell the product on credit at their own risk and at the best price obtainable. In my opinion there cannot be a better and cheap arrangement, as there are lots of *goladars* in every market, who work at a very cheap cost and in competition to each other.

The pooling arrangement managed by highly paid officers will never be able to give better return to the agriculturists. The only arrangement needed to help the marketing of the agricultural product is to provide good roads which are greatly wanted and to induce the co-operative banks to make advances to the *arhatdars* according to their worth and security of grains and other agricultural products.

At present there is no such bank or institution, where the *arhatdars* who store products can get any financial help with the result that they have to go to private money-lenders and borrow money on high rate of interest. An industrial and agricultural bank, if opened, will help and facilitate to a great extent in this direction.

There is no other facility than the postal department for internal remittances.

The *hundis* are generally discounted in central places such as Patna, Bhagalpur and Muzaffarpur.

The only document of ownership is the railway receipt, but no bank in this district is willing to advance money against them before realisation.

It is difficult to raise money on the security of railway receipt for goods despatched against orders or consignor's own account. The remedy is that the Imperial Bank and other joint stock banks be induced to freely advance on railway receipts for goods despatched or similar documents.

The value of land in this district to my knowledge is as follows :—

	Rs.	Rs.
Paddy and <i>rabi</i> crop fields	...	700 to 900 per acre.
Potato and vegetable fields	...	1,600 to 1,800 per acre.

There is no mortgage or agricultural bank to advance loan on credit for long-terms. If such a bank be started the capital can be raised by floating shares, debentures, and from central institutions shares, debentures must carry Government guarantee to attract the investors. The bank can advance loan on mortgage of tenants and landlords' rights on reasonable rate of interest and thus benefiting the

landlords and the tenants both. The extent of debts of the district can be ascertained from taking figures from the registration office and adding 30 per cent. to it for the debt on negotiable instruments. The debt is due to co-operative societies and private money-lenders only. There are about 30 to 40 oil mills, and about 50 rice mills and about 10 to 12 sugar refineries in the Province. The above industries can be encouraged and developed by establishing industrial banks.

There is at present no bank in the Province which advances loans to industrial concerns, save and except the State aid to factories. It is very difficult to get aid from the Government under the State Aid Act, because before aid is granted by the Government to any such concern, the application together with profit and loss accounts for three years and all its encumbrances, i.e., assets and liabilities have to be advertised in the Gazette for three consecutive weeks, which spoils the credit and exposes the applicant in the market. Moreover inquiries are not made confidentially but openly. For these reasons good and respectable concerns do not attempt to approach the Government for a loan in spite of the fact that their works suffer a good deal for want of financial help. Another evil of this Act is that under this Act Government can advance loans to only new industries, but it does not grant loans to old industries however valuable they may be. My idea therefore is that if an industrial bank is opened in the Province on the line of Industrial Bank in Germany and other countries, which will advance loans to industries on cash credit, such as grains, seed and other raw materials used in the industries by keeping a proper margin, say 20 to 25 per cent., and will also advance loans on getting mortgages of the properties of the industries, i.e., on getting sufficient securities, and will also advance loans to people intending to open new concerns by taking a deposit of 15 to 20 per cent. and also on security of machineries and other appliances purchased by them to encourage development of industries, and all other loans should be advanced at a low rate of interest, say 6 to 7 per cent. on long-term basis, and in case of advance made to open new industries, the interest should run from the actual date of its working, and thus it will be a great boon to industrial concerns. There is at present no bank which advances loans on cash credit system except one private bank, which charges a very high rate of interest compoundable every six months and which at the end of the year compels the concern to clear up the accounts even if the raw materials on the security of which advances have been made, are not consumed by the concern, by selling them in open market, without any due consideration of loss or profit. This is a great drawback for the industrial concerns.

The indigenous banks to my knowledge do not help the agriculturist in any way. They use their capital in their own business and advances the surplus if any only to the traders.

The spare and leisure time of the farmers can be best utilised by introducing hand-spinning amongst them. This scheme can be best and smoothly worked, if a society be started, who would supply *charka*

and cotton on credit system, and buy their products and yarns itself for finished goods.

Oral Evidence.

Chairman : Babu Gopilal, you own an oil mill in Dinapore?—Yes.

What kind of an oil mill is it?—We are mostly making mustard oil and sometimes linseed as well.

Do you operate in castor oil?—No. Castor oil is mostly extracted by the hand press in this district.

For how many years has your mill been working?—It is working for more than 50 years now. This is the first industry of its kind in this Province. It was originally started by my grand-father and we have been working it all these years.

Are there now several other mills in the vicinity of Dinapore?—Yes there are. In Dinapore itself there are three and there are about 40 mills in the Province.

Has there been a big development in the oil mill industry in recent years?—Yes, many mills have been started recently.

Are they doing good business?—Yes, they were all doing good business until two years ago when there was a slack in the business owing to floods and famine in Bengal which largely imports the products of the oil mills in this Province. Moreover, there is more competition at present.

Do you think that the demand for oil mills is beginning to reach a saturation point?—I think there is more demand for oil mills as the existing products are sold without much delay or inconvenience.

Do you anticipate a good deal more of capital could be put in the oil mill business in this Province?—I think so.

Could you give us a rough estimate of the extra capital that would be required for that purpose?—I think for the districts of Patna, Gaya and Shahabad Rs. 20 lakhs would be necessary.

What amount of capital would be required to start an oil mill?—Oil mills as they exist in this district could be started with an initial capital expenditure of about a lakh of rupees and a working capital of a like sum would be necessary.

So anybody who would like to do this business should have a capital of at least two lakhs of rupees?—That is so.

Therefore, according to you, there is scope for starting 10 new oil mills in the Patna, Gaya and Shahabad districts?—Yes.

Could you kindly give us an estimate for starting a rice mill?—It all depends on the capacity and size of the mill. Generally, the cost of boilers is not excessive, but for a mill which consumes about 400

to 500 maunds of paddy a day at least about 4 bighas of land would be required attached to the mill for drying the paddy.

What will be the cost of such a mill?—The plant and machinery and necessary buildings will cost only about Rs. 30,000 to Rs. 40,000 and the working capital required will be about one lakh of rupees.

Do you see any scope for starting new rice mills in the three districts you have mentioned?—I think there is scope for more rice mills in this division.

Are all the existing rice mills flourishing?—All these rice mills were working at a good profit, but two years ago owing to failure of crops in the adjoining districts some of these mills worked at a loss.

Within another ten years' time probably there will be further development?—I think so. The trouble about these mills is that two or three mills are started all at once in one and the same place. It would be better if they are started in different places so that they might draw their paddy from separate areas.

For the starting of how many more new mills is there scope in the three districts?—I think about 40 more rice mills could be started.

Professor Batheja : Do you think you can keep all these mills going in full swing by the regular supply of paddy?—I think so. Even now most of these mills draw out paddy from parts of Bengal for their requirements. But now at Dinapore some of the mill owners are trying to import paddy from Champaran and other places.

Do you think the cost of transport will justify the starting of these mills?—As a matter of fact people are clamouring for lower rates for railway transport.

Is much paddy imported at present from Bengal to be turned into rice in the Dinapore rice mills?—Yes, they are doing it even now.

For how many mills you think will there be a paddy supply from within this division?—There are about 15 rice mills at present and I think on the whole about 20 mills can be run in this division without importing paddy from outside, when there is 16 annas crop.

Do you not think that Bengal will prefer to start their own mills instead of sending their paddy down here?—But if more rice mills are started in Bengal and there is enough need for paddy there alone then there will be difficulty.

Mr. Hodge : Are the existing mills working up to their full capacity?—Yes, they are doing so up till about June every year. But in the case of other mills who manage to store up enough boiled and dried paddy for their requirements they manage to work throughout the year.

Chairman : Do you think there is any other form of mill industry which is showing signs of development in this division?—Sugar industry is another thriving business.

Are there any signs of sugar factories extending into the Patna division?—I do not think so, because they require a big capital.

You think there is no sign of any private enterprise springing up at present?—None that I know.

Professor Ratheja: Are you interested in other industries as well?—Personally I am not, but there are other important smaller industries such as cast iron moulding business, preparation of *atta*, etc.

Is there much of flour-milling in this division?—So far as I am aware there is only one big mill belonging to my friend R. B. Dhandhania. This is in Patna itself.

Is there any scope for the extension of flour-milling in these parts?—I do not think there is much scope. Wheat is not produced locally and so it will have to be brought down here all the way from up-country and moreover there is much competition.

You have no suggestion to make of any other big industry which likely to grow up in volume within the next few years?—No.

Do you think there is scope for tanneries here?—There are no tanneries here at present and we get all our requirements from Cuttack.

I suppose you are aware of the failure of a great number of rice mills in the Tirhut division. Could you tell us the reason for failure of these mills?—I think they were mostly due to excessive over-head charges and bad management. In this Province people mostly consume boiled rice, but these mills were producing raw rice with the result they found themselves unable to sell their output.

So you do not advocate the starting of rice mills on a large scale?—I do. I believe that they will be a success only if they are worked on a large scale.

R. B. Jalan: Do you not think it will be more advantageous to open small mills in places where you could get enough paddy?—Small mills will be a success only if the expenses are small. The supervision and other overhead charges will be the same in a big and a small mill. So it is better to work the business on a large scale.

But if you have not got enough of local paddy it is much more disadvantageous, is it not?—That is so, but at present every mill is importing paddy from outside the Province.

Chairman: In discussing marketing in your memorandum you say that the *arhatdars* sell the produce on credit at their own risk and at the best price obtainable. Would you kindly explain your statement?—The agriculturists sell their products generally to the village *banias*, while others bring it to the nearest market and store them with the *arhatdars*. These *arhatdars* generally store the produce from the cultivator or the *bania* as the case may be in their *gola* and make advance on the goods at 75 per cent. to 80 per cent. according to the then price of market and sometime make advance to the cultivator or the *bania* as the case may be without any goods and then sell the produce as and when they please in the interest of their clients and when the market conditions are more favourable. Of course there is

a general understanding between the parties that the produce is to be sold not less than a certain minimum rate.

Professor Batheja : So the benefit of obtaining a higher price and the loss in the case of a lower price is shouldered by the *bania* or the cultivator as the case may be and not by the *arhatdar*?—That is so.

Supposing the market price suddenly jumps up then does the *arhatdar* sell it at a higher price even without consulting the cultivator?—Yes, he does so. If he finds that the market price is likely to grow still further he will hold up the stock but if he finds that there is a tendency of the market price falling, then he will sell the produce even against the instructions of the cultivator or the *bania* concerned.

R. B. Jalan : Unless there is a definite instruction from the party concerned the *arhatdar* does not generally sell the produce?—I do not think so.

Chairman : If they have good reason to expect a fall in the market price these *arhatdars* will sell even below the cultivator or the *bania's* price in order to protect the interests of their clients. Is not that what you mean?—Yes.

Professor Batheja : And do you think that this system of selling through *goladars* of that type is efficient?—Yes, because they work at a very cheap cost. They charge only 12 annas per cent. commission. They also try to get good prices for the produce by showing it to all dealers and they select the best paying man and ultimately sell it to him.

Chairman : Do you do any of this *arhatdari* business?—No.

Professor Batheja : Do you not think that a co-operative sale society will be able to get a better price for the cultivator?—I do not know how co-operative societies will be able to do that. Nowadays these traders and consumers combine and they would work in competition to co-operative sale societies.

But still the *bepari* or the *arhatdar* who acts as the middle man must be making his profit which can be saved by direct action of co-operative sale societies?—It is after all a small profit that he makes and I am of opinion that the co-operative societies will never be able to compete with them.

Have you any experience of the working of any co-operative sale society?—No I do not think there are any in this district.

You think the only defect of this *arhatdari* business is that sometimes the *arhatdar* does not get enough money for advancing to cultivators?—Yes.

How would you secure this finance for the *arhatdar* so that the cultivators may get the advance?—By inducing the co-operative banks to advance to *arhatdars* on the security of the goods which they keep in their custody.

Are there any banks that do this business that you know of?—So far as I am aware I think the Allahabad Bank alone is doing this business, but at a very high rate of interest. They, however, compel the *arhatdars* to sell their goods at the end of a year and close the account.

Do you would like the account to run on?—Yes, to enable the *arhatdar* to find out a suitable opportunity when the market is more favourable to sell the produce.

Chairman : Do the banks take the stock completely under their control?—Yes, they do.

Professor Batheja : Does the Allahabad Bank insist on these *golas* being insured?—Yes. That is the first condition. The bank itself gets the stock insured in the name of the *goladar*.

R. B. Jalan : Does the bank keep open the room in which the stock of the *goladar* is stored during the office hours?—That is the difficulty. They do not do that at all. They keep the room closed and the seals are broken up only when the *goladar* pays for the goods he wants to take delivery either in part or whole.

Chairman : Do you think that all those precautions which the bank takes now acts in a way detrimentally to the interests of the *goladar* in that the latter finds himself unable to expose his goods to the public for sale?—That is true.

(The Chairman at this stage described the system by which licensed warehouses might be worked and then continued the examination of the witness.)

As far I remember the suggestion of the Chairman was that if the *goladars* are licensed by Government the banks can advance against certificates issued by such licensed *goladars*. My answer was that if such system is brought into force and the banks are made to advance on the certificate it will increase the trade and the cultivators will get more facilities.

You now understand the kind of system which is expressed in the phrase “a licensed warehouse”. Do you think that system will benefit trade generally?—I think it will increase trade and commerce generally, but I am afraid it will increase the working cost to the *arhatdar* and the latter will moreover have to maintain regular account books and so on.

Do you think that the banks could be fairly easily induced to accept the receipts obtained for storing the goods in a licensed warehouse and to advance loans against the security of them?—I do not think banks will advance money on such receipts to any customer unless it be in the case of known customer who has regular dealings with the bank.

A *hundi* backed by a railway receipt is not dealt with by banks ordinarily, is it?—Banks do not accept railway receipts as security in ordinary cases because of the fear that the goods said to have been consigned may not be genuine.

Mr. Hodge : But if a *goladar* is licensed by Government then that would add considerably to his security?—I think that it will no doubt increase his credit and security to some extent, but I doubt whether the bank will consider it safe enough to advance money. It all depends on the merits of individual cases.

In the case of a licensed *goladar*, if he is found to have issued a false receipt and used it as genuine, his license may be withdrawn and he can be prosecuted for cheating?—Yes, I think that could be done.

Do you not think that if such action is promptly taken the banks will come to trust the certified *goladars* and your present objection will disappear?—Yes, that is possible.

Do you not think in that case the bank will trust a licensed *goladar* more than an unlicensed man?—Yes, it will trust a licensed *goladar* more than the unlicensed man.

Chairman : There are two alternatives; (1) the *goladar* may give a receipt to the *bania* or the cultivator and the *bania* or the cultivator can operate on the production of that receipt with a bank whom they approach for finance, and (2) the *bania* or the cultivator may give a *hundi* to the *goladar* in exchange for the advance already made by the *goladar* and the *goladar* whenever he finds any necessity for obtaining more money can pledge a bundle of these *hundis* and get the required loan from the bank. Which of these two suggestions do you think is the better?—I think the latter suggestion is better, but I do not think these *goladars* would be able to get *hundis* made out to them by the *banias* or the cultivators who in most cases have only petty dealings with the *goladar*.

Do you not think that it really comes to this—the amount of confidence that the *goladar* is able to create in the minds of the bank by his honest dealings?—That is certainly the chief thing.

I find that you have actually suggested that co-operative banks should take up this business of financing the *goladars*, whenever necessary?—Yes.

Do you think in order to give the system a fair trial it would be either necessary or desirable that Government should guarantee the fair dealing of these licensed *goladars* in the first instance during the experimental stage in order to ensure confidence in the minds of the banks?—That would be a good thing; but I think they could very well ask the co-operative banks (which are also controlled by them) to advance loans to such licensed *goladars*.

You contemplate *goladars* forming co-operative societies among themselves in order to get more finance for their business. Do I understand that you mean the starting of co-operative societies with limited liability?—Yes, that is my suggestion and the society thus formed might certify that so and so is a member of that society and he could be advanced up to such and such an amount.

Professor Batheja : Do you think these *goladars* resort to unfair practices in dealing with their clients?—I do not think so. There is so much competition in this business at present that they dare not resort to unfair practices.

Do you think the *goladars* prefer to deal with the cultivator direct rather than through the *bepari*?—That matters little to them.

Mr. Hodge : Do you suggest that it is the intelligent agriculturist who comes to the *goladar*?—Yes, because he knows how to get a better price for his produce.

Professor Batheja : I find that you are in favour of starting an industrial bank. Do you think it could be done with private enterprise?—If there is Government assistance then it will be possible to attract deposits.

You do not think that these banks can be started without Government assistance?—There will be less chance of success than otherwise.

If Government gave assistance would monied people and *mahajans* become shareholders of the bank?—I think they will.

And you think the necessary capital would be readily forthcoming?—Yes.

Mr. Hodge : Referring back to the *goladars* for a moment, at what rate of interest do you think these *goladars* should be financed?—I think it should be between 6 and 8 per cent.

Chairman : In discussing the working of the State Aid to the Industries Act you say that the advertisement in the Government Gazette for three consecutive weeks regarding the grant of a loan under the Act spoils the credit of the applicant. Do you think at the same time that it is necessary to have some such publicity?—There is no need for publishing this at all. Every sort of information could be collected privately by asking the applicant to place all his cards on the table. Government could also institute private enquiries about the assets of the man or the concern which makes the application for a loan. I think the only idea behind the advertisement is to call for objections from the public if any regarding the grant of the loan. Moreover title-deeds of the property and other things could be verified from the registration offices.

Would it not be fairly well known that a certain industrial concern applied for State Aid?—But I only want that the public should not be made aware of the details, for once they come to know of them they will think that the man is really in bad circumstances and that he is very much encumbered and so on.

Have you in mind any specific case or cases in which a man's credit was damaged in this way?—I know of at least two cases where the man's credit was damaged by such publication.

Professor Batheja : You think there are no joint stock banks at present which perform the functions of financing industries?—There are none at present.

Do the joint stock banks do this business at all?—I do not think there are any banks in this district which feed the industries.

Chairman : Do you think that industry has developed far enough in Bihar and Orissa to justify the opening of an industrial bank?—Industries are developing well at present and if they are also helped better financially they will develop all the more.

Professor Batheja : Do you think there are several other industries which could not be started for want of financial assistance?—Yes, I agree. There are minor industries such as pottery, tannery, spinning industry, hosiery, etc., which could be developed.

Do these industries require long-term finance?—Yes, they do. Until they have established themselves well in business they will not be able to repay the loans advanced to them in the beginning.

Do you think special banks for financing such loans are necessary and the existing banks will not be able to cope with the work?—Yes. In my opinion special banks are required.

Will there be sufficient business for such an industrial bank?—I should think so. There will not be any difficulty.

Do you not think that the co-operative banks should be able to do these things?—Co-operative banks are intended for a special purpose.

Chairman : So you are in favour of starting an industrial bank as a separate unit, apart from the co-operative banks?—Yes, that is my suggestion.

What sort of working capital do you contemplate for such an industrial bank?—I think about 50 lakhs to a crore of rupees will be required.

It cannot be started with a smaller capital you think?—A beginning might be made with a smaller capital, if thought fit.

Would it be possible to lend from 6 to 8 per cent. considering the rate at which you can attract deposits?—A high rate of interest is a great burden.

Professor Batheja : Do you think such a bank could be started without Government assistance?—I do not think so. To be a success it must have Government support and assistance.

Granted that such a bank is started would you transfer the function of lending money under the State Aid to Industries Act to such a bank?—I think it ought to be done.

Do you think such banks will be able to work in a business-like way?—Yes.

Do you think that it would be better to have a combined agricultural and industrial bank to finance both agricultural and industrial enterprises?—That might be done.

Do you not think the needs of agriculture are somewhat different from those of industry?—There is some difference. Therefore the

same bank may have two separate departments to deal with these functions.

For what periods do you think agricultural advances would be necessary?—That depends on the special circumstances, and the needs of the applicant.

Do you mean by agricultural bank a land mortgage bank?—Yes, advances could be made on land mortgage.

You do not contemplate such a bank giving short-term agricultural loans?—The co-operative banks could look after that function as they do at present.

Do you think the co-operative banks have enough funds to meet such requirements?—Oh yes, certainly. As a matter of fact I heard that the central banks have surplus funds with them.



सत्यमेव जयते

Saturday, December 14, 1929.

PATNA.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. HODGE.

Mr. BATHEJA.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. R. C. PANDIT, Mr. H. B. CHANDRA

and

**Mr. G. C. GUPTA, represented the Bihar and Orissa Chamber of
Commerce, Patna, Mr. H. B. CHANDRA replying.**

THE BIHAR AND ORISSA CHAMBER OF COMMERCE, PATNA.

MEMORANDUM.

Instead of attempting an exhaustive reply to the complete list of questions, the Committee of the Bihar and Orissa Chamber of Commerce have tried to focus attention on the following issues which they consider essential to the rapid development of banking facilities and the solution of some of the most pressing banking and economic problems with which the province is faced. Although the question of Banking education forms no part of the Questionnaire issued by the Provincial Banking Enquiry Committee, the Committee of the Chamber think that such technical education, forming as it does a part of the large problem of education as a whole, can be best tackled by the Provinces separately, either under the existing Universities or as an entity by itself. Accordingly, this Memorandum deals with the Committee's views on that subject as well.

The most important step which the Government should take towards an abiding solution of our banking and credit problems is the introduction of a full value standard coin in our currency system, as this will automatically release vast savings of the people locked up in unremunerative gold and ornaments, which in their turn will constitute an effective lever for solving the immense problem of rural debt redemption and agricultural credit.

The indigenous banking system is the most extensive credit organization existing in the country; and the Joint Stock Banks are

doing real spade-work in introducing and strengthening the banking habit among educated classes. The quickest and the most economical method of banking development is to afford more encouragement and better facilities to the indigenous and Joint Stock Banks, even, if necessary, by restricting and controlling the operations of the Imperial Bank of India.

Government and governmental institutions like the Post Office should, by all legitimate means, encourage national thrift among the people. But the methods adopted should, under no circumstances, operate against the interests of existing thrift institutions, like Banks and Insurance Companies.

Peoples' money so collected, should be available for utilisation inside the province, and be not easily diverted outside the province or allowed to accumulate in the inaccessible coffers of the State.

In order to afford better openings for the investment of public money, the scope and methods of the Department of Industries should be considerably widened, and a bold policy of organised industrial development in close co-operation with joint stock and indigenous banks should be pursued, if necessary by amending the existing State Aid to Industries Act.

The agriculturists' year and the last date for the payment of Land Revenue to Government should be so altered as will enable the agriculturist to realise a better price for his produce. This will materially strengthen his position against "under-buying" by the dealers and minimise harassment by the landlords.

The Committee definitely declare that the problem of rural credit is yet too big for the Co-operative movement alone to solve; and while everything reasonable should be done to encourage its growth, any adulteration of its natural functions with other forms of credit will prove detrimental to the movement.

The formation of Land Mortgage Banks should be taken up early under Government patronage, and a salutary form of Government help should be the placing of a substantial amount of its balances with them free of interest for the first few years.

In order to meet the growing demand for trained workers, the course of Bachelor of Commerce should be forthwith started in the Government Arts College at Patna; and a special Short Course Commercial and Banking class should be inaugurated which should be recognised by and affiliated to the Patna University.

The Committee regard it as unfortunate that apprehensions should have been allowed to arise in influential circles as to the scope and purpose of this enquiry and they consider it essential for the success of any reform to be introduced that the largest measure of popular sympathy and co-operation should be sought for. The Committee further point out that there is a genuine grievance in certain circles that the great importance of local co-operation has not been fully realised

by dilettante officials in authority, who have often exercised their offices in a manner inconsistent with the principles of the banking and industrial growth of a people. The Committee emphasise that the enquiry would have utterly failed in its purpose if the administration were to be unable to respond to the principles of reform in their actual execution.

Finally, the Committee consider it essential that the Memoranda of provincial evidences should be published for public benefit in a separate volume.

I. AGRICULTURAL CREDIT, ETC.

1. 5. 7. There is hardly any co-ordination among the various Credit agencies, and except for the Co-operative Banks which work on systematised lines, there is no organised method of rural finance on constructive lines. A fundamental misconception seems to have persisted in dealing with the question of rural indebtedness. The money-lender has invariably been treated with scorn and the time has often been visualised when he may be altogether swept from the land. Even when there have been grudging acknowledgments of the splendid part he has from time immemorial been playing in agriculture finance, the attempt has been not to improve his machinery and increase his resources but to restrict his operations and discredit his business. This arises from a fundamental misconception of his place in the land. The Royal Commission on Agriculture in their Report on page 433 rightly observe that—

“ In the present state of India, he is a necessity and, that being so, his calling will not be abolished by making it illegal. He alone is in a position to provide the bulk of the capital required for agricultural needs and, on a recurrence of severe distress, he will continue, as in the past, to support the people by timely loans.”

If the money-lender were to be deleted from the chain of moral economy, the resulting state of the agricultural population cannot be contemplated with equanimity. The Co-operative movement after a full quarter of a century has hardly touched $3\frac{1}{2}$ per cent. of the population and out of these few indeed are those fortunate agriculturists whose borrowings are confined to the co-operative societies alone. The right perspective to deal with the question is to acknowledge the money-lender's right place in the opinion and by affording him better facilities and increased resources, gradually to guide his activities along lines that will yield the maximum of good result. If the individual rates of interest are to be reduced—for the average return is never high, what to speak of usurious,—and the accompanying evils to be remedied, not only is the business of money-lending to be made safe for the lender, but his resources should be so materially strengthened as to enable him to produce a sufficiently large turnover.

2. The agriculturist's year for the payment of rent to the landlord ends in the middle of the monsoon, when circumstances are by no

means favourable for such payment. The last date for the payment of *kist* or land revenue to the State by the landlord ends in January, which again is the time when the crops are just waiting for being properly marketed. The former leads to an increase in the agriculturist's burdens; the latter forces him to part with his crops under pressure from the landlord (who has to meet Government dues) without much consideration of the price. This state of affairs may usually put the agriculturist to a loss of even 50 per cent. on the value of his crops.

The Committee, therefore, suggest that the advisability of changing the *kist* date to sometime in June, and terminating the agriculturist's year about three months prior to that, say in March, should be carefully examined. Among other benefits which may result from such a scheme, if adopted, will be that—

- (a) the agriculturist will have ample time for a proper marketing of his produce and thus realise comparatively better prices than at present; and will also be in a better position to meet the landlords' demand for rent and save himself from damages;
- (b) the Government will be better able to watch agricultural conditions for the administration of relief in the event of distress like partial or total failure of crops;
- (c) the year's revenue will be paid out of the same year's produce, which will result in natural benefits to all the parties; and
- (d) the payment of land revenue during the monsoon will ease the Government's ways-and-means position which is usually acute at that time.

4. The Committee of the Chamber are in full accord with the views of the Royal Commission on Agriculture on the question of Land Mortgage Banks. The flotation of debentures should be controlled by the Provincial Co-operative Bank and should carry a Government guarantee for interest only. The Government may advance loans to these banks through the Provincial Co-operative Bank to a maximum of 50 per cent. of the debentures taken up by the public, and such loans should usually carry no interest. In order to safeguard Government against unnecessary loss, and also to act as a salutary check against maladministration, there should be an official member on the committee of management of each bank, who may be endowed with special powers.

6. Most of the labour on rice and oil mills and the sugar factories in Bihar are drawn from agriculturists, who have not to migrate to long distances from their homes and who also look to the sowing and harvesting of crops in their native villages. Such subsidiary industries are a source of substantial income to the agricultural population, otherwise confined to land. The Committee suggest that a thoroughgoing economic survey should be carried on with a view to the establishment of such industries on an extensive scale, and the Department of Indus-

tries should co-operate with the local banks and bankers in rendering all possible help in their flotation and prosperity.

So far loans under the State Aid to Industries Act have been advanced direct to the proprietors of an industrial concern without the intermediation of a financial house, and have usually been confined to purposes of what has been described as "pioneering industries". A number of scholarships have also been annually awarded for technical and industrial education abroad, the net result of which has so far been that not one industrialist of their training has been of any real assistance in the industrial development of the province.

In the opinion of the Committee, a better and more beneficial method of State Aid should be to offer financial aid through and on the security of local Joint Stock Banks and indigenous bankers who, too, should have an interest in the flotation of the concern. This will afford real security to Government against unnecessary loss, while the business acumen of the bankers will, in their own interest, be available to both the Government and the industrialists. Such a method will command better confidence of the people and result in better benefits to the industry. The State Aid to Industries Act should be widened in its scope in order to inaugurate a policy of systematic industrial development of the province.

II. INDIGENOUS BANKING.

The indigenous bankers are by far the most important banking houses in this province and their operations extend on one side to small market-places adjoining a group of villages and on the other to big centres like Calcutta, Bombay and Cawnpore. A large number of them depend upon their own resources and to some extent on that of their brother bankers for the supply of funds, while some of them have established connections with the Imperial Bank of India. The practice of receiving deposits from the public is not usual, nor do such deposits accumulate to any appreciable percentage of the total capital outlay. The rates charged on loans vary widely according to number of circumstances, which every businessman has to take into account; but the net return will average about 9 per cent. These indigenous bankers are largely responsible for the finance of trade and industry.

As distinct from this class who are links in a mighty chain of credit organisation extending over wide areas, there is another class of agricultural money-lenders that plays a most important part in the finance of agriculture during production, but whose resources are usually unsupplemented by any accommodation from fellow money-lenders or the Imperial Bank of India and whose connection with the marketable crops extends hardly to the nearest village market. This class is totally unorganised and its resources are naturally limited.

There is a third class of money-lenders that is a standing disgrace to the credit organisation of the country and to the authority of those

charged with looking after the financial needs of the people, viz., the ubiquitous "Moghal". He has no permanent interest either in the villages or towns of this province. His resources are usually very limited. He lends both in towns and villages at fabulous rates of interest. His method of realisation are abominably severe and almost entirely obviate a resort to the law courts. The Committee of the Chamber regards this class as dangerous and damaging to bona fide banking interests of the province and consider it essential that the money-lending business of these so-called Moghals should be exterminated root and branch.

In this province there is no prejudice against indigenous bankers. On the contrary, their simple and economical methods, their easy accessibility, their usually humane methods of treatment, are all factors which have combined to guarantee their existence and respectability.

In order to make the indigenous bankers more serviceable to the community and create a much-needed link between them and the central money markets of the country, the Committee think that an attempt should be made to introduce a class of licensed money-lenders, whose maximum rate of interest should be fixed at 18½ per cent. and who should use a standard form of vernacular and English combined *hundis* or promissory notes with stamps printed on them and serially numbered, and who should also be required to maintain clearly written books of account for production in court when necessary. Such money-lenders should be given the privilege of obtaining awards from civil courts in a more expeditious manner than obtains at present,—something like what prevails in the Presidency towns. For this purpose, the *hundis* could be noted and *pro-tested* before such public officers as the postmaster, sub-registrar and sub-inspector of schools, who should be recognised as notary public.

In order to supplement the resources of the licensed money-lender, a *hundi* discount-market should be created in principal trade and agricultural centres. *Hundis* drawn by money-lenders should be rediscounted with the Imperial Bank of India after being countersigned by an approved shroff in a district town. These *hundis* should have a maximum currency of six months in order to cover a full crop-season.

The Imperial Bank of India should after careful inquiry prepare a list of approved shroffs in all the principal trade and agricultural centres and should be able to rediscount their *hundis* much more easily than is possible at present. Similar facilities should be extended to local Joint Stock Banks wherever existing. This list may be re-examined every year, and the nature and volume of the business done through the shroffs may be allowed to increase if warranted by results.

The money-lenders and shroffs are bound to have their own associations in due course and should necessarily be able to command better confidence and cheaper money from the Imperial Bank and the public.

The Committee of the Chamber believe that such an experiment is bound to yield fruitful results and will not merely make the branches of the Imperial Bank of India more remunerative but will also do away with the necessity of opening fresh branches of the bank for meeting commercial and agricultural needs.

At present during the monsoon a large amount of money is either lying idle in the hands of the indigenous bankers or flowing to Calcutta at very low rates of interest. The creation of the *hundi* discount market will open up new avenues for the investment of this money at a time when it is urgently needed for financing agricultural production, and will yield a better return.

Answers to the additional questions.

1. This province is mainly agricultural, and modern banking, as a concomitant of international trade and the growth of large scale factories, is naturally undeveloped. In spite of our proverbial richness in mining and industrial resources, the present-day organisation of the money market is not conducive to the location of the head offices of such mines and factories in this province. It must, however, be recognised that its moneyed class carries substantial investments in other parts of the country, and the morale of its rural population is inferior to none.

2. There are two branches of the Benares Bank Ltd. (Benares), one of the Allahabad Bank, Ltd. (Calcutta), and one of the Central Bank of India, Ltd. (Bombay). The Committee do regard it as an evil to export local savings for use outside the province. But this can be remedied by opening fresh avenues of investment for the banks' money for which suggestions have been made elsewhere.

3. Pending the establishment of private banks commanding confidence in rural areas the larger rural post offices should extend their banking business in a manner that will not block the way for private enterprise indicated below :—

- (i) Current accounts should be opened, against which cheques can be drawn payable on demand (or, at the postmaster's discretion, after an interval of 24 hours).
- (ii) These deposits should carry no interest.
- (iii) The cheque form should be printed in English and two other vernaculars, and signatures in the vernacular should be admitted.
- (iv) Transfer of money from one post office to another should be free of charge.
- (v) When deposited in account, cheques on the Imperial and Joint Stock Banks should be collected and a charge of 4 annas should be made for every hundred rupees or part of hundred rupees so collected.

- (vi) Lending or overdraft in current account should be permitted against the security of Postal Cash Certificates only, to the full extent of the cash value at the prevailing Bank Rate with a minimum of $7\frac{1}{2}$ per cent.

The Committee are not in favour of entrusting any other form of banking business to the post offices as suggested in Question 3 (b).

4—9. The Committee's views on these and similar questions have already been dealt with in the main Memorandum.

10. In the opinion of the Committee, the correct method of dealing with usury is not so much to penalise it as to create alternative and more humane sources from which people can obtain finance in time of necessity. Instances of usury that come to light through the law courts are an insignificant part of those actually in practice, and making them illegal will never solve, as it has never solved, the problem.

III. INVESTMENT HABIT, ETC.

The following are some of the important means and institutions for encouraging saving and investment by the people :—

1. The Imperial Bank of India and its branches.
2. Co-operative Banks and Societies.
3. Joint Stock Banks and their branches.
4. Indigenous Banks and business concerns.
5. Stocks and Shares of Joint Stock Companies.
6. Gold and silver ornaments.
7. Life Assurance Companies, Indian and Foreign.
8. Government and Government-controlled agencies—
 - (i) Post Office Savings Banks.
 - (ii) Postal Cash Certificate.
 - (iii) Postal Insurances.
 - (iv) The Government Provident Fund.
 - (v) Treasury Bills.
 - (vi) Government Securities, and
9. Landed properties.

There is a general grievance that the branches of the Imperial Bank of India have not been as helpful as was expected to the growth and expansion of indigenous and Joint Stock Banks.

Facilities similar to those enjoyed by the Imperial Bank of India should be extended to Joint Stock Banks and indigenous bankers, after careful inquiry and against proper securities, at places where there is no branch of the Imperial Bank at present. This step will

help in the strengthening of public confidence in the Joint Stock Banks and facilitate the deposit business of indigenous bankers, who may then be induced to introduce the use of cheques.

Steps should be taken for the development of a Stocks and Shares market at Patna where facilities should be available for transactions in the following classes of securities :—

1. Government securities.
2. Certain securities of the Calcutta Exchange, such as Shares of Railways and Electric Supply Companies working in this province.
3. Shares of local Banks, e.g.,—
The Bank of Behar, Ltd.
The Benares Bank, Ltd.
The Chota Nagpur Banking Association, etc.
4. Shares of State Aided Companies, enjoying the privileges of the State Aid to Industries Act.
5. Other miscellaneous securities.

An institution like a Stock market is bound to have a slow growth; but the Committee emphasise that great potentialities are present in this behalf, and that such a step will be a landmark in the industrial growth of the province.

As has already been pointed out, the most effective method of attracting the savings now locked up in unremunerative gold and ornaments is the introduction of a full value gold coin in our currency system. Improvements will also result with the spread of education and the availability of other easily convertible means of investment.

The province has no Life Assurance Company of its own, and a large amount of its savings are being constantly drawn to centres outside the province by such companies of Indian and non-Indian origin. A very substantial amount of the peoples' savings is invested in these companies which is not available for use inside the province. With the non-Indian companies, there is another general disadvantage in that these savings are not usually available for investment in this country.

The Committee realise that it is difficult to remedy this state of affairs, except by starting well-managed Insurance Companies in this province, to which all reasonable facilities should be extended for expanding on sound lines.

The Committee desire to affirm the general principle that Government while doing everything legitimate to encourage national thrift should not only not compete with private institutions in attracting small savings, but should completely withdraw from such activities as soon as sound private enterprise attains a position when it can reasonably take their place.

The rates of interest on the Postal Cash Certificates are much higher than those available for similar deposits with the Imperial Bank of India or other sound banks. No doubt, a large percentage of these sales are made to persons of small means in out-of-the-way centres, but an equally large if not a larger percentage is made to persons whose savings would have gone to other kinds of available institutions. In so far as the latter are concerned, the Government is attracting money at too high a price without any commensurate benefits to themselves or the people, while this system operates very heavily against private banking interests.

The Committee of the Chamber, therefore, suggest that the following modifications should be made in respect of Postal Cash Certificates :—

- (1) The total amount to any one man's credit should not exceed Rs. 1,000,
- (2) trusts should not be recognised, and
- (3) the form of these certificates should be so varied as to enable their being used as securities against over-draft accounts.

While on this question, the Committee beg to refer to their views stated elsewhere on the question of using the post offices for opening current accounts against which cheques can be used.

Postal Insurances and the Government Provident Fund very strongly compete with private enterprise, and Government have been trying to put obstacles in the way of their employees going to private Life Assurance Companies. The Committee's objection to this state of affairs is that in the first place all the usual faults associated with any Government enterprise are present in these cases; secondly, the collections are not available to the people in the usual manner; and thirdly, there is hardly any reason why Government activities in these respects should not cease, now that the country can boast of having produced really sound thrift institutions to take their place. The Committee accordingly suggest the following :—

1. The life insurance department in the post office should become a closed fund; that is to say, no new proposals should be accepted, but contracts already in existence should not be affected.

2. Government should lay down a standard of efficiency for Life Insurance Companies based on age, investments, rate of interest assumed for valuation, payment of claims and general treatment to policy-holders, etc. The names of those Companies satisfying these standards should be published in the Government Blue Book every year, and Government employees should be encouraged to take out their policies with such Companies. Another salutary result of such a step will be to encourage healthy emulation among Life Assurance Companies for increasing their efficiency and usefulness.

3. Payment of premia out of General Provident Fund deposits direct to the companies should be done in the same way as was done previously.

4. In case of monthly payments of premia direct deductions from salaries of Government employees should be made and paid to Insurance Companies in the same way as is done at present in the case of Postal Life Assurances.

The Committee do not think that there is any special necessity for extending fresh facilities to small agriculturists and investors for taking up some form of Government securities. They have elsewhere suggested the means whereby the position of indigenous bankers and money-lenders may be improved and strengthened, and it is these that will act as the best feeders for Government loans whenever needed.

The value of land as a remunerative investment has rapidly deteriorated, and it is essential that other fixed and safe avenues of investment should be available to the people in order to relieve the competition on land.

The Committee do not think that Government should undertake any propaganda in the matter of educating the people for investing in Government loans for capital expenditure or like purposes. The Department of Industries may issue leaflets and pamphlets at nominal prices in English and vernacular dealing with their own industrial activities and bringing to public notice the benefits of investment in such industries. Once the right machinery for attracting the various classes of savings is set up, peoples' money will almost automatically flow into these channels by the mere force of circumstances.

Habits of thrift are ingrained in the Indian nation and it is utterly wrong to suppose that the investment and banking habit is of very slow growth. The present deplorable state of the country can be definitely traced to, among other, the following causes :—

- (1) The pendulating and unsuitable currency policy of the Government and the absence of a standard gold coin,
- (2) the distinctive tariff policies of the East India Company and the Government till very recent times, resulting in the destruction of a large number of rural and urban industries,
- (3) the absence of an organised policy of industrial development on national lines till very recently, and
- (4) the absence of any encouragement to indigenous bankers and money-lenders who are the natural bankers of the people in rural areas.

The Government in India have often believed that they can, simply by using their power, prohibit the logical consequences of their own acts visible all over the country to-day, and if India is to progress economically, as it should; the problem should be attacked from all sides simultaneously.

SUPPLEMENTARY NOTE ON LIFE INSURANCE BUSINESS IN BIHAR AND ORISSA.

The total amount of life business in force in India at present is estimated at 150 crores of rupees of which considerably more than half belongs to Indian Companies. The present annual business is about 15 crores to which Bihar and Orissa contributes about 70 lakhs. Calculating our provincial contribution to the total business in the same ratio we find that the total business in force from this province amounts to about 7 crores.

The life fund against the total Indian business amounts to about 60 crores of rupees against a total business of 150 crores, on the same basis the accumulated life fund accruing out of the business of this province would amount to 210 lakhs and the annual premium payable against insurances in force at 5.5 per cent. of the sum assured amounts to over 42 lakhs of rupees.

The rate at which life insurance business has been progressing recently, it is safe to assume that in the next five years the life fund of 210 lakhs will at least become 5 crores, and the annual premium payable will be about 75 lakhs of rupees.

That this province is really far behind the average progress made by the country is clearly seen when we realise that the amount of fresh sums assured works out at nearly 8 annas per head of the total Indian population while that for this province hardly amounts to 3 annas 6 pies.

It is really a pity that we have no organisation as yet to harness this vast and increasing flow of funds from this province.

Oral Evidence.

Chairman : You gentlemen have come here to represent the views of the Bihar and Orissa Chamber of Commerce?—Yes.

What is your position in that body?—We are all members of the Committee and Mr. Pandit is our Secretary.

Who is your President this year?—Rai Bahadur Radha Krishna Jalan.

How many years has the Chamber been in existence?—Four years.

What is its membership now?—40.

Is the membership confined entirely to Bihar?—Yes.

How many members are there from Orissa?—Two.

Are there many members from North Bihar?—Yes.

Do you uphold the existing village money-lenders as an institution?—Yes.

You would afford better facilities and increased resources? Have you got any particular scheme in view in that matter?—Yes. I have suggested it in the shape of a *hundi* discount market.

That is your method of financing, at any rate at the experimental stage, the improvement of the village *mahajan*?—Yes.

What sort of agency would you suggest for the selection of these licensed money-lenders, obviously you could not license every money-lender?—No. The number of money-lenders is immeasurably large. We can attract names from among the money-lenders by offering certain privileges and facilities.

What agency would do the selection?—The local Government may authorise some Deputy Magistrate to select names.

Do you suggest purely official selection?—Yes.

Do you agree, Mr. Pandit?—(Mr. Pandit.) In addition the financing agency might have a voice.

Do you anticipate that a great majority of money-lenders would come forward?—I do think so.

Have you consulted any village *mahajan* about it?—Yes, and in fact the scheme is a suggestion from some of those *mahajans* themselves.

One facility I take it would be the securing of finance at the time it is most needed?—Yes. And another is speedy realisation of dues when going to court.

Your scheme for *hundis* is that power to issue *hundis* up to a definite limit should be granted, I take it, by the licensing authority to each licensed *mahajan*?—Yes.

Where he would discount these *hundis*?—With the Imperial Bank wherever they have got branches and there may be financing houses working in co-operation with the Imperial Bank where there is no branch of the Imperial Bank.

Do you think the joint stock banks should be brought in?—Yes.

(To Mr. Pandit.) Would your bank view such a suggestion favourably?—(Mr. Pandit.) Yes.

Is the idea to limit this kind of business mainly to short-term loans?—The time should in no case exceed one year.

Is it the view of the Chamber of Commerce that there is a definite shortage of money in the mufassal during the time the crop is growing?—Yes.

Is there a corresponding surplus of money in the towns as a rule at that time?—Yes and that money is generally transferred to large centres like Calcutta because there is no remunerative opening in the mufassal towns.

And the interest earned on that in Calcutta is very much lower than in the agricultural areas?—Yes.

Have you any idea of the sort of charge the banks would be likely to make for the discount of these *hundis*?—That is governed by the prevailing bank rate at the time.

Do you think one per cent. above bank rate would be sufficient?—Not more than 2 per cent.

In that case as a rule the village *mahajan* would get his finance at something like 9 per cent.?—It would be lower because at that time the bank rate is somewhere below 6 per cent., so that it might be below 8 per cent.

The original loan would be made to the cultivator on a hand-note. It would be open to the licensed *mahajan* either to endorse that hand-note and pass it on to the financing agency or to draw a fresh *hundi* and either get that rediscounted by the financing agency or to offer that as collateral security for the original hand-note?—Yes.

You advocate all three of these methods being in ordinary usage?—Yes.

What would be the probable charge for the intermediaries?—I think 2 per cent. should be quite enough.

Over and above the bank rate?—Yes. We have limited the maximum in the case of licensed *mahajans* to $18\frac{3}{4}$ per cent.

You suggest that possibly the financing agency would not accept the documents of the licensed *mahajans* directly but that there should be an intermediary agency of shroffs who would discount the *hundis*. What charge would be likely to be made for putting another name on the *hundi*?—One-fourth to one per cent. maximum.

Mr. Pandit, do you agree?—(Mr. Pandit.) Yes.

R. B. Dhandhania : You say that in any case the licensed *mahajan* would be working with his own money and only put this system in operation when his money was exhausted. Do you contemplate his continuing to do business in his own name and with his own money?—Yes.

And this would be in addition to the other business on an entirely different basis?—Yes. This would supplement his resources very largely.

Would you give him power to realise his own money by certificate?—Yes.

Chairman : Would you at the same time tie him down to a definite rate of interest for that business?—Not for the whole business. We have a maximum of $18\frac{3}{4}$ for the whole business but there may be imposed further restrictions on the money he gets from the financing agency.

Mr. Gupta : I think the *mahajan* should be tied down for a particular rate of interest, i.e., to charge the same rate on the borrowed capital and on his own capital.

Mr. Pandit : Yes.

Mr. Chandra : I do not agree. I want to point out that the scheme will not be workable because at present the attraction of the *mahajan* is the high rate of interest.

Mr. Hodge : Do you not think that the maximum of $18\frac{3}{4}$ per cent. is too high?—That is the maximum.

Would it not tend to be the normal?—Probably it may be a surprise that the maximum is now 36 per cent.

Would it not be unprofitable for the agriculturist to borrow at $18\frac{3}{4}$?—It depends on his needs.

Chairman : Do you contemplate giving the agriculturist the choice to accept a loan on somewhat lower interest on condition that he agrees to it being realised under the certificate procedure as well as accepting a loan as he does at present on the ordinary terms in which case it would have to be realised through the civil courts?—I have no objection.

So that the *mahajan* would have two classes of clients and two different rates of interest. Do you not admit that there would be complications?—That may be controlled by the insertion of a clause on the *hundi* which may authorise the certificate procedure.

Professor Batheja : Would it not be possible for the *mahajan* to charge a uniform rate of interest both for his own money and the financing authorities' money to make up his loss on the private transactions?—That is exactly what we have got in mind in suggesting the scheme.

Would it be worth while for the *mahajan* to charge a uniform rate of interest?—It would be worth while provided the rate of interest is sufficiently high. The 18½ per cent. may be reduced still further.

Mr. Hodge : Has that figure been suggested by the *mahajan* himself?—Yes.

Do you think that he would necessarily advance money with very great caution?—I do think so.

So that the agriculturist who is in real need might have great difficulty in getting loans from licensed *mahajans*?—Not necessarily. The *mahajans* know their clients more intimately.

Do you think that this system would meet the emergency cases for money?—I think it will better meet the calls than the system does at present.

Chairman : On what sort of ground do you think that the license ought to be cancelled?—For charging a higher rate of interest than that stipulated, or for resorting to methods for the realisation of their dues which may not be considered legitimate.

Would you add the ground that he was lending money much more liberally than he should be doing?—I should put it the other way. He might be realising his interest in the shape of labour and that should be prohibited definitely.

Would you make it a ground at any rate for a warning if not for cancelling the license that the licensed *mahajan* was forcing credit down the throats of the agriculturists?—Yes.

Mr. Pandit : It is doubtful because his risk is there.

Do you consider that it is a proper criticism of the existing *mahajani* system that the village *mahajan* is generally aiming at getting hold of the land of the cultivator and turning him into something approximating an agricultural serf?—No. We can divide the village *mahajans* into two distinct classes. One class carries on agriculture side by side with money-lending and another class confines itself to petty village trades. The former class does aim to a certain extent at getting hold of the land.

Mr. Hodge : Is it a fact that much land is passing out of the hands of the cultivators into the hands of the money-lenders?—Land is not passing from the hands of agriculturists to non-agriculturists.

Is it not passing into the hands of money-lending agriculturists?—Yes, that may be.

Professor Batheja : You do not think there is any danger of licensed *mahajans* giving credit too lavishly?—Not much.

Do you, on the other hand, anticipate the opposite danger of his not financing money sufficiently liberally?—He would proceed very cautiously.

On the whole his lending operation will be guided by the security of the transaction?—Yes.

Chairman : Do you contemplate the licensed *mahajan* giving some definite security to the financing agency for the loans advanced?—(Mr. Pandit.) Yes.

Suppose the licensing authority decided that certain village *mahajans* could issue *hundis* up to Rs. 5,000 in the year, what amount of security would you think necessary?—The fixation of this limit of Rs. 5,000 should be controlled by the credit of the *mahajan*. It should be enquired into privately before the amount is fixed and these loans may be further secured by the agriculturist's loans and by the liquid assets of the *mahajans* themselves.

Would you fix any ordinary standard between the amount of finance the *mahajan* could get in any one year and the amount of actual visible security which he was prepared to offer?—We should fix the amount equal to his actual standing. If it is estimated by the lending agency that the *mahajan's* stability is generally of about Rs. 10,000 then the total amount that can be advanced to him may be put down at Rs. 10,000.

There would be no definite pledging of certain land, house property or anything of that kind against his power to draw on *hundis*?—I think they may be resented by the *mahajans*.

R. B. Dhandhanja : Do you think that it is necessary to lay down that the licensed *mahajan* before he can start business should deposit a certain sum in cash or perhaps in Government securities with the financing authority which would bear a definite relation, say 10 per cent. of the amount of finance which he was allowed to get in the year?—If the *mahajans* agree to that, it would certainly be a very welcome procedure.

Chairman : Have you any particular suggestion to make for any other facilities which should be given to licensed *mahajans*?—I would suggest that the licensed *mahajan's* books should be inspected by the Income-tax authorities in the same way as the books of a joint stock bank and that they should not be checked by reference to the borrowers.

Mr. Pandit, would you advise your directorate to accept this class of business if the licensed *mahajani* system was brought into force?—(Mr. Pandit.) Yes.

Mr. Hodge : Does this *hundi* market call for any organisation?—It will I think come automatically, if you create that class of licensed *mahajan*.

Who is going to create it?—It can be created by Government by legislation.

Chairman : You speak about the difficulty in regard to agricultural credit owing to the date on which the land revenue *kists* are fixed. The land revenue *kists* are four in number in the case of large estates. At which *kists* is the principal amount paid in?—January and March *kists*.

Do you think that the March *kist* is too early?—Even the January *kist* is early enough and so is the March *kist*.

Do you think that the landlord cannot get his rent in by the 20th March without putting too much pressure on the *raiyyat* to pay his rent?—Yes.

Would you advocate the bulk of the land revenue being realised in June rather than in March?—Yes.

Do you think it is possible that by putting the *kist* for rent later, the produce would mostly go into the hands of the *mahajans* and the landlord would only begin realising when the *raiyyat* has already expended most of his stock?—With regard to payment of rent to the landlord we have suggested that the present ending of the year which falls sometime at the beginning of the monsoon should not be at that time but sometime in March.

The agriculturist has got two serious charges on the crop, the first is the *mahajan*, the second is the landlord. Which do you think is the heavier burden?—The *mahajan* has his own option but the landlord is without option.

I mean from the point of view of the amount?—He is heavily in debt.

Professor Batheja : Would you be surprised to learn that the average interest charge the *raiyyat* has to pay is probably twice, if not more than the average charge for rent?—It is, but the assistance that the agriculturist gets from the *mahajan* is certainly better than that he gets from the landlord.

Chairman : You think it is wildly optimistic to believe that in 25 years the co-operative movement will have covered adequately the ground. You further think that it should not be treated as the only possible form of credit in the rural areas. You say too that it should not be considered to have played its part adequately until it reduces the rate of interest very much below the present rates, in fact to somewhere under 9 per cent?—Yes.

Mr. Hodge : You contemplate a system of licensed money-lenders whose maximum rate of interest would be 18 per cent?—That is the maximum. But usually it will certainly be about 12 per cent.

You suggest that until the co-operative rates of interest are reduced to under 9 per cent. the movement is not likely to cover the ground anything like an adequate way. Is that so?—Yes.

Do you think then that it is the high rate of interest charged by co-operative societies that stands in the way of extension of the movement?—Not exactly. There are several other reasons.

You have put down one main reason?—Lower rate of interest will mean better work.

If the rate of interest is reduced to 9 per cent. the movement would spread rapidly?—It is a business consideration whether they can afford to do that. If they can they will certainly succeed.

Assuming that they can afford to do that, do you think the movement could spread more widely?—Yes.

Chairman: You seem to advocate that the money collected in the province should be made available for utilisation inside the province. You do not propose to erect any kind of tariff wall for finance round the province, do you?—Of course, we wish, if it is possible, that should be done.

Your idea is every legitimate encouragement should be given to utilisation of money inside the Province?—Yes.

But there should be no definite obstacle placed in the way of utilisation elsewhere?—No.

Then you speak of such money accumulating in the inaccessible coffers of the State. Do you think the Government of India or the provincial Governments keep large stocks of treasure as the Moghul emperors used to do?—No. The money that accumulates in the hands of Government does not find employment with the people.

Do you think the Government of India keeps a larger balance of actual loanable money than it needs for its very wide functions?—What we exactly mean is that the percentage of the balance may not be very large because most of it remains with the Imperial Bank. What we mean is that the money raised in mufassal towns by Government may not be utilised by the people of that place.

Professor Batheja: Is it because the terms on which the Imperial Bank conducts business are so rigid that that money cannot be lent to the people?—Yes, the terms and methods. They do not do mufassal business.

Mr. Hodge: Can you name the districts that suffer in this way?—Almost all, Chapra, Patna, Darbhanga, Bhagalpur, etc. The Imperial Bank hardly invests money in the place that it takes out from them.

Professor Batheja: What method would you suggest?—The Imperial Bank should get better avenues for investment of money by the creation of the *hundis* discount market. Then we should have better development of industries in this Province and all possible assistance should be given for the development of industries by Government.

Are there not some restrictions in the Act under which the Imperial Bank conducts business?—The restrictions in practice should be diminished as much as possible.

What are the restrictions in practice as distinct from those imposed by the Act?—One of the most important is lending of money on two name papers. Then the officers in the mufassal areas are not in touch with the people of that place and there is a peculiar atmosphere attached to the Imperial Bank.

You want greater links between the Imperial Bank and the people carrying on business?—Yes.

Chairman : You say any adulteration of the natural functions of the co-operative movement with other forms of credit would prove detrimental to the movement. What were you thinking of when you said that?—The co-operative movement in this Province has been trying to perform functions which do not legitimately fall under the head, such as remittance of money from place to place.

Would you oppose any encouragement of the co-operative banks by putting more remittance business into their hands?—Yes. As a point of principle, because they get any number of special facilities from Government which are not available to private joint stock banks.

Would you oppose that even where there is no other bank in existence and no immediate prospect of a bank?—We would welcome an extension of the banking functions of the post-office rather than that of the co-operative movement.

Are there any other functions which you think the co-operative movement should not be allowed to take up?—Opening of current accounts in central banks.

Professor Batheja : Do you think the managers of co-operative central banks in this Province are qualified to do this work?—No.

But considering the fact that co-operative central banks serve a large part of the rural area which is not served by joint stock banks or by other credit agencies would you not try to make them more useful by giving them more functions in such places?—We would like this banking function to be performed by the post-offices.

Mr. Hodge : Is not the central co-operative bank primarily a financing agency?—Yes.

Is not remittance of money its proper function?—The central bank is a financing agency with a definite object in view and we believe that the remittance of money does not legitimately come under their objects.

Chairman : Do you think, Mr. Pandit, that there is no remittance business worth speaking of in rural areas during the movement of crops and in the remaining part of the year the demand for remittance in the rural areas is so small that it would not be worth while putting it upon the co-operative banks?—(Mr. Pandit.) Yes.

Do you think that the co-operative central banks at subdivisional headquarters would find great difficulty in keeping sufficient fluid resource to take up any reasonable amount of remittance business which may be put on them?—Yes.

Professor Batheja : Do you think the supply of remittance facilities to the public from the post-office and joint stock banks and indigenous bankers is adequate now?—(Mr. Pandit.) Yes.

Have you experience of joint stock banks in some of the smaller towns in this Province?—Yes.

Chairman : Is the remittance business an important part of the business?—In the buying season from April to June, there is a rush and we cannot get sufficient money to buy these drafts.

Professor Batheja : You do not think any class of person will be served if these remittance privileges are given to the private people?—I do not think so.

Chairman : On the whole, it is your opinion that there is not a fair co-operative remittance and *hundi* discount market in all the small towns in which there are central banks and no other banks?—Yes.

In most of the places where there are central co-operative banks there would be a fairly active grain market?—Yes.

Are you in favour of starting a definitely industrial bank in the Province?—We are not in favour of it at present.

Is it your idea that aid to industries by the State should be carried into effect through joint stock banks and indigenous bankers?—Yes.

What charge would such financing agencies place on the business?—One to two per cent.

That is to say if an industry applied for aid, in addition to the interest that it should have to pay on the money lent by Government it would have to pay also a charge of 1 to 2 per cent. to the bank?—Yes.

Would that be a continuing charge?—The bank will function as one of the borrowers from Government and the money will be earmarked for people who are on the list of borrowers.

What I want to know is, supposing a company applies for a loan of Rs. 1 lakh from Government and offers say 7 per cent. interest as an annual charge, would the bank add 1 to 2 per cent. to that annual charge or merely take that percentage once for all as a charge for putting the transaction through in the beginning?—If the borrower is a sufficiently big man and can be taken as a banker himself then any other banker does not come in.

Then your idea is that the bank would function as a guarantor of the industry throughout the period of the loss and therefore would charge 1 or 2 per cent. annually until the loan is paid?—Yes.

Professor Batheja : If the borrower does not make good the sum borrowed, the bank will be responsible to Government for the return of the money?—Yes.

Do you think that the joint stock bank will be prepared to accept business on that basis?—(Mr. Pandit.) Yes to small extent.

If they are prepared to recommend such applications to Government why should not they be able to finance these industries themselves?—(Mr. Pandit.) Their resources are not sufficient for financing big industries.

That means that the bank ordinarily will supply the credit to such parties itself first?—The resources of the joint stock banks in this Province are in the nature of commercial resources and not industrial resources which requires capital to be locked up for a long time.

Mr. Hodge: Your Committee suggest that a survey should be made with a view to the establishment of such industries on an extensive scale?—We hold that the problem in this Province is a problem of diversification of agriculture and that can come through these industries very well.

Is it not your opinion that this should be carried out by the Department of Industries and by Government?—Yes.

Chairman: Do you advocate the extension of the State Aid to Industries Act to assist established industries as well as the new and nascent industries?—Yes.

But in practice they do?—In practice they have refused applications on the ground that "it is not a new industry in the province".

Professor Batheja: When you suggest that joint stock banks may be utilised by the State for financing industries would you prescribe certain standards which they must attain before that agency can be utilised?—There are such joint stock banks in Patna, Darbhanga, Monghyr, the Chota Nagpur Banking Association, the Bihar Bank and the Benares Bank.

Would you like to utilise the agency of all these banks or would you have new banks?—The banks functioning in this Province are good enough.

Mr. Pandit, do you think that every joint stock bank should be utilised in this Province?—(Mr. Pandit.) No.

Would you suggest that the bank should have a certain amount of working capital or certain paid up capital before it should be qualified to undertake this function on behalf of the State?—Yes, there should be some restriction.

What limit do you suggest?—It is difficult to say. It depends on the business.

You say that the rate of interest on postal cash certificates is much higher than that for similar deposits. We got evidence from the Postal authorities the other day that present rate of interest on such certificates is 5 per cent. simple interest. Is that higher than what you pay?—Our idea has been that the rate of interest works out at 5.8 per cent. compound. If it is 5 per cent. simple interest, we have nothing to say against that interest.

Your rate of interest on similar deposit would be higher than 5 per cent. simple?—The Allahabad Bank rate is $4\frac{1}{2}$ per cent., we are going to raise it to 5 per cent.

Are you in favour of lowering the denomination of the cash certificates so that it may be available for the poor?—We are not against it.

Chairman : What form of action do you think suitable to get rid of the Moghul money-lenders?—I remember that about six years back the Government of Bombay took some drastic measures against them with the help of the police and sections 109 and 110 of the Penal Code. As a result of that many of them left the city.

Do you think the evil could be met by a vigorous application of the existing criminal law or do you think any special legislation is required?—The criminal law is enough. Their money-lending business should be very severely dealt with because cases are coming to our notice that even respectable men are trying to enlist the support of these Moghuls for doing money-lending business through their agency.

Do you find the Moghuls are actually borrowing money from respectable people to a large extent?—Not to a large extent but a demoralization is setting in and it should be stopped.

Professor Batheja : Do you think the expense and trouble of litigation which a money-lender has to face is so great that he is attempting to employ the agency of the Moghuls?—The people who do not know money-lending but have greed for money are trying to get the help of the Moghuls.

How do you propose the extermination of the Moghuls?—Whenever any case of any violence by Moghuls against anybody comes to notice, the Moghuls should be very severely dealt with.

Chairman : Do you suggest that those convicted of such malpractices should be deported?—They should be. The convictions will be very few because reference to law courts will be very few.

Professor Batheja : You suggest in your memorandum that something like the procedure which prevails in Presidency Town courts should be adopted in recovering money advanced by licensed money-lenders. What is this procedure?—It is known as Order 37.

Chairman : That is to say that the creditor files a plaint in a particular form and the debtor has ten days in which to obtain leave of the court to defend the suit. Is not that right?—Yes.

If he fails, the decree is given *ex-parte*; if he gets leave of the court the case goes on as an ordinary case?—Yes.

Do you not think it will be extremely difficult to supply the type of officer who will be capable of deciding whether defence should be permitted or not?—Yes.

Are you aware that that procedure is at present limited to the High Courts in the three Presidency Towns, the Chief Court of Rangoon and the Court of the Judicial Commissioner of Sind at Karachi?—Probably it is, so we say something on that line.

Would it not be sufficient to give certificate power?—Yes.

Professor Batheja : Would you advocate the use of the responsible Government officers in the mufassal as an agency for protesting hand-notes of this kind?—Yes.

Does this procedure prevail in Presidency Towns?—Yes and in other towns.

Chairman : Would you make it necessary for the licensed *mahajan*?—It is purely optional.

Would it not mean that the village licensed money-lender must get hold of his debtor and produce him before these officers?—No. He will only take over that document and hand over to the school master or the sub-registrar, who can present it to the debtor either himself or through his clerk.

The public officer would have to seek out the debtor and give the document into his hands?—The procedure is that the public officer presents the *hundi* at the usual place of business of the debtor.

What is the fee paid for officials?—Rs. 8.

That system might work in big business centres?—Yes. This may have a salutary effect on village money-lenders because this may put them in touch with local officers and that may act as a check against any malpractices.

Could not this be left to the option of the money-lender?—Yes, it is optional.

Professor Batheja : Is there a large amount of money in this Province which seeks investment in the shape of insurance business in the absence of other facilities for investment?—Insurance by itself is a productive facility. I have prepared a small note on this subject which I submit as part of the evidence.

Chairman : What is your estimate of the sum invested?—Every year about Rs. 40 lakhs is invested and the total investment is somewhere about Rs. 2 crores belonging to the people of this Province.

Do you think the people resort to this form of investment because they have got no suitable method of investment?—There is no other method that can replace insurance. Insurance is a method entirely different from all kinds of investment.

But how would you confine this investment to companies started in this Province?—If companies are started on sound lines and if certain facilities are given by Government then naturally the companies of this Province will get an advantage over other companies.

Would it be possible to have some restrictions on the methods of investment by people?—No, it is not possible.

Professor Batheja : You say that facilities similar to that enjoyed by the Imperial Bank should be extended to joint stock banks and indigenous bankers. What facilities have you in view?—Facilities of using Government money on privileged conditions.

Do you mean without interest?—These facilities cannot be extended to any other institution than the Imperial Bank and therefore what we

exactly mean is that the Imperial Bank itself should delegate some of its facilities at those places where there is no branch of the Imperial Bank.

Is it in the power of the Imperial Bank to delegate these powers?—Yes, by appointing special guarantors and agents.

Has not the Imperial Bank to satisfy themselves that they come up to a certain standard?—Certain joint stock banks come up to that standard but the Imperial Bank does not provide them with capital.

Do you mean that the Imperial Bank should act more and more as a bankers' bank?—Yes.

Mr. M. YUNUS, Honorary Secretary, the Behar Landholders' Association, Patna.

MEMORANDUM.

My Association prefers to deal mainly with credit facilities for agriculturists, landholders or zamindars.

My Association desires to impress upon the Committee the importance of providing banking facilities to agriculturists, as the whole structure of Indian society indisputably depends on the prosperity of agriculture and agriculturists. The largest source of revenue of the State is derived from land, and agriculturists bear the greatest burden. In a more or less purely agricultural country like India, the prosperity of the professional classes and that of every industry is bound up with the prosperity of the agriculturists. It is very rightly said that an increase in the purchasing power of the agriculturists even by one anna per head per annum would mean an increase of several millions of rupees per annum in the import trade of the country. It is, however, regrettable that the position of the agriculturists and the land-owning classes is deteriorating owing mainly to the want of credit and financing facilities. Government up to this time has done very little for the uplift of the agriculturists and the landlords. With these few observations my Association begs to submit the following replies to the questionnaire :—

I. (a) (i) By *takavi* from landlords.

(ii) By borrowing from *mahajans*.

(iii) By borrowing from co-operative banks.

I. (b) From the same source as (a).

(c) From the same source as (a).

(e) The landlords in some cases charge no interest, in other cases they charge some interest, which varies from 6 per cent. to 12 per cent.

(f) The co-operative societies and banks charge interest from 15 to 18 per cent.

(g) The private *mahajans* charge interest from 12 to 24 per cent.

- (h) Ordinarily the loans are given from season to season.
- (i) Landlords generally take no security.
- (j) Sometimes the standing crops may be the security.
- (k) The co-operative societies generally take the crops as security, and in some cases even lands.
- (l) *Mahajans* usually take the lands in security.
- (m) The Government, the Imperial Bank and the joint stock banks play no part in agricultural finance.
- (n) The co-operative banks, the indigenous banks and bankers and professional money-lenders, merchants and dealers play a considerable part in it.

In the opinion of my Association about Rs. 15 lakhs would be required for the district of Patna alone, and several crores of rupees must be needed for this purpose for the whole Province.

The benefit to the actual *raiyyat* does not appear to be very great of the co-operative movement. A *raiyyat* of some position can get money from the local *mahajan*, sometimes at a lower rate of interest than from the co-operative banks.

My Association suggests that, the Government having provided easier and simpler ways of realisation of their dues for co-operative societies by means of certificate, the interest charged by these should be much lower, namely, not more than the 9 per cent. especially when in cases of loans advanced to agriculturists by co-operative societies and banks, there is joint and unlimited liability of all the members of the society.

At present what does not seem to be mentioned is any co-ordination between the various credit agencies, but certainly there is great scope in this direction.

2. The method of marketing of crops in this Province is that generally merchants, or their agents go to villages and buy up the crops from the producers. In some cases, the producers carry their crops to the nearest market or *gola*. In other cases there are *beparis* who buy the produce direct from the producers and take it to various markets for sale.

In the opinion of my Association if co-operative *golas* are opened by agriculturists in various centres, that would be the best method of marketing produce. To ensure honest working it would be necessary that there should be some Government control and supervision of these.

With regard to landlords, as stated above, the position is most unfortunate. The Imperial Bank, the joint stock banks, the exchange banks and co-operative banks and societies do not give them any loans. The only persons to whom they can turn for loans, whether for payment of revenue, or for necessary expenses, or to meet the cost of litigation or of social ceremonies in case of failure of crops, or when their tenants fail to pay rent, are the village or town *mahajans*. In some cases even successful lawyers, who have amassed money, make advances

to landlords and act as money-lenders. The landlord sinks deeply into debt, and in course of time his ancestral property is sold up and passes into the hands of *mahajans*, who generally charge interest varying from 22 to 24 per cent. with a *salami* varying 2 to 5 per cent. The interest is generally compounded at three months and the landlord is lucky if his *mahajan* shows him the favour of compounding his interest at six months. Although landlords offer the best security, yet they have to pay a very high rate of interest.

In the opinion of my Association Government should establish a system of land mortgage advance banks for the help and relief of zamindars and agriculturists. Such banks may be more or less based on co-operative lines and their capital raised by the sale of debentures and shares and the balance, if any, provided by Government buying up such number of the debentures as may remain unsold.

In the opinion of my Association, giving additional facilities to indigenous banks will not be of much benefit, for these would not be under satisfactory control, and probably the agriculturists and the landlords will suffer as much as before.

In modern times there is hardly any hoarding worth mentioning. People no doubt keep money in their homes, but it is soon spent in meeting revenue, rent and other necessary expenses of life. Thus there is hardly any surplus left at the close of the year.

An ordinary agriculturist family has generally nothing of gold and perhaps the better class of agriculturists have probably one gold *Nuth* (or a large nose-ring) generally, weighing not more than say half a tola. The other ornaments in the possession of an ordinary agriculturist family are usually of silver, while the lower classes generally have brass ornaments.

The position of petty zamindars does not seem to be any better. Their women-folk probably have a few more silver ornaments and a few more brass utensils. There is nowadays nothing like a store of gold or silver anywhere in the Province, either as bullion or coin.

Oral Evidence.

Chairman: Mr. Yunus, you have appeared before us on behalf of the Bihar Landholders' Association?—Yes. We are chiefly interested in agricultural and land mortgage banks.

You say in your memorandum that about Rs. 15 lakhs would be required for the district of Patna alone. Would you kindly let us know to what purpose is that amount limited?—We had in view only the small agriculturists who require small loans for agricultural purposes alone.

You think, therefore, that Rs. 15 lakhs would be required by the agriculturists for short-term credit alone?—Yes, every year.

And I suppose this is in answer to our question whether it is possible to form any estimate of the amount of annual borrowing?—Yes.

You say that the position of landholders in the matter of getting loans is most unfortunate. Do you think it is getting worse?—I think so, so far as the banks are concerned. Joint stock banks generally are very reluctant to advance money to landlords.

Do you think they are getting more and more reluctant?—Yes.

What do you think is the main reason for their increasing reluctance?—The delay in the repayment of loans although, I think personally, that land is the best security that could be given.

Is there any recent development in case law that makes it more difficult to get the loans back from the landlords?—I do not think so.

We had some evidence before which showed that the interpretation of the Hindu Mitakshara joint family law in recent years makes it more easy to repudiate. Is that your experience as a lawyer?—I do not think that it is so. It would entirely depend on individual cases. There has hardly been any change in the old common law or the statutory law of the land. All depends on the application of the law to individual cases by certain judges.

Professor Batheja: But are these applications of the law sufficiently numerous to justify the impression in the minds of the bankers that they will not be able to get back the money from the zamindars easily?—There may be that impression in the minds of the bankers, but as I have already said much depends on the interpretation of law by the judges.

You say that land is the best security, but do you think it is the best security from the point of view of the commercial bank?—Security is good no doubt but the money cannot be realised quickly.

Suppose the bank is compelled to foreclose its mortgage, then do you not think that it will be very difficult to manage stray bits of land in the mufassal?—The banks can always sell such land easily.

Would it surprise you to hear that some banks were not able to sell land without loss?—That is because they did not advance money carefully. It all depends on how much money the bank advances and what is the value of the security.

We have been told that even a 40 per cent. advance against land is bad business. Do you agree?—I do not think so. In such a case I suppose the interest must have been very high.

Chairman: Possibly the valuation of the land also might be too liberal?—Quite so.

Professor Batheja: Does not the expense of litigation eat up a lot of the margin?—It does.

How long will it take for a bank to dispose of a suit against a landlord?—Much depends on the temperament of the debtor. Sometimes it might even take ten or twelve years for the disposal of the suit.

Mr. Hodge: When you say land is the best security you assume that the borrower is a man of good standing, reputation and character?—Apart from that land itself is a good security in the sense that

in cases of other trade or business there is greater danger in dealing than in case of land.

Is there sufficient security to enable you to recover in full?—That will depend on the amount advanced and the value of the security.

Chairman : I see that your Association advocates the establishment of land mortgage banks. Do you contemplate them for the benefit of the smaller zamindars and the very substantial tenants or do you think they should operate throughout the whole range of agriculturists?—Both to the agriculturists and the landlords as well.

Do you think that the co-operative movement as at present organised should be able to undertake the provision of long-term loans to the smaller agriculturists without the establishment of a fresh agency?—I think it should be able to do so provided certain modifications in the existing rules of co-operative societies are made.

Would you advocate the raising of debentures for that purpose?—Yes, that can be done. The only defect in the present system is the high rate of interest which the agriculturists have to pay for their loans from co-operative societies. They are at present paying not less than 15 per cent. per annum.

You therefore think that if the co-operative movement should come into this business of long-term credit it should be done only if the rates of interest now charged by them are lowered?—Yes.

Do you think that the co-operative movement could equally well deal with land mortgage loans intended for the zamindars and the substantial agriculturists?—If a land mortgage co-operative bank is started I think it would be able to perform such functions. I believe the existing co-operative central banks will not be able to undertake this.

You say that such land mortgage banks should be organised on the basis of co-operative banks. You do not advocate joint unlimited liability, do you?—No.

What other particular features of the co-operative movement are you contemplating?—Debentures may be issued, landlords may be permitted to be the shareholders of the bank, and Government may be asked to take up any unsold debentures and such of the landlords who desire to take loan may be asked to become shareholders of the bank.

You would insist on every borrower becoming a shareholder of the bank?—Yes.

And would he have any further liability beyond his share of the capital and his debt in cases of failure of the bank?—No. Unless the bank is limited in liability none would come forward to take up shares in the concern.

Then I take it that in return for this obligation the borrowers would have a share in the control of the bank?—Simply as shareholders and no more.

But they would be shareholders with all the privileges attached?—Yes.

Mr. Hodge : Will the financing agency have any effective voice in the management of the affairs of the bank?—Yes, certainly. Without Government supervision the bank will not work properly. The success of the present co-operative movement is mainly due to Government supervision.

Chairman : Do you think the Government control is adequate now in the co-operative department?—I do not say it is quite adequate at present but Government has not got sufficient power in its hands.

You would advocate, at any rate in the beginning, fairly substantial control by Government over these land mortgage banks?—Yes.

Mr. Hodge : Do you think there is really a great need for land mortgage banks in this Province?—Yes, there is a great need.

How many would you contemplate starting in this Province?—I think it better to have one in each division to begin with.

Chairman : Can you suggest any way by which we can get a satisfactory estimate of the amount of business that a land mortgage bank would do in the Patna district?—That is a difficult question to answer, but on a rough estimate, land mortgage banks advancing money to the zamindars with an annual income of Rs. 10,000 will require a working capital of at least Rs. 20 to Rs. 30 lakhs if we restrict to small loans alone.

That is your estimate for the Patna district alone?—Yes.

You would advocate the restriction of loans in that way?—Yes.

Professor Batheja : If you do not satisfy all the needs of the zamindars then would you not drive them to some other credit agency for their loans?—That is true. It would be better if a land mortgage bank could be started for the benefit of all zamindars.

Chairman : Is it not a fact that the very big zamindars usually get accommodation from some others of their own class?—Yes.

Professor Batheja : And do they also get accommodation from the ordinary joint stock banks?—I think the tendency is not to advance money to the zamindars not even to the really big ones among them.

Even if bankers are satisfied that they would not give trouble in repayment?—I myself have negotiated on behalf of certain big zamindars for loans but the bankers never advanced this reason possibly out of delicacy but they somehow or other try to evade advancing loans.

Chairman : Is it not so that the big zamindars can put their estates for management in the hands of the Court of Wards while the small zamindars cannot do so?—As a matter of fact the zamindars are very much averse to the management of their estates by the Court of Wards.

Mr. Hodge : Is it a fact that some of the smaller zamindars are heavily indebted?—Some of them are but there are several of them

who are without any encumbrance whatsoever. Even such people who are without any encumbrances whatsoever find it difficult to raise funds.

Professor Batheja : Is it a fact that zamindars who are unable to raise money themselves find it easy to do so if they place their estate under the management of the Court of Wards?—First of all it is generally difficult to bring an estate under the Court of Wards' management. When once an estate has been so brought under the management of the Court of Wards it is not the zamindar who raises the loan but the management. The management being under Government control, banks do not hesitate to advance funds to such estates, for they are sure of their funds being returned without trouble.

Is it also a fact that the Court of Wards is able to raise money at a lower rate of interest than other zamindars?—Yes, that is because of the Government security behind the Court of Wards.

Do you think the rate of interest charged on the zamindary loans is much more than that charged by the banks on ordinary loans advanced to merchants and other business men?—Yes, but it all depends on individual cases.

Is it because that the merchants could be more trusted with regard to prompt repayment of the loans thus advanced?—I cannot say if it is a fact that loans are repaid much more early by merchants than by zamindars. Banks are afraid to make advances to zamindars because of the fear that their monies will be tied up with the latter for a longer period.

So you think that special banks are required to finance zamindars especially to make long-term credits?—That is exactly so.

Chairman : Do you think the existing joint stock banks will dislike the idea of starting separate land mortgage banks because of the fear that their existing business will be affected?—I do not think they will entertain any such fear at all. As a matter of fact, personally I do not think their business will be much affected.

Professor Batheja : Would you be surprised to hear that many joint stock banks in this Province do lend on land mortgage?—Yes, they do to a limited extent.

Do you not think it is true of the other parts of the Province as well, Chota Nagpur and Orissa?—I have no experience of those parts.

Chairman : Do you think the middle-men make a great deal of profit in the course of marketing of produce which is more than their legitimate share for the service rendered by them?—I do not think it is very much more but no doubt they make considerable profit.

Professor Batheja : Do you think co-operative sale societies would be able to manage this work cheaper than the existing *beparis* or the *goladars*?—I do not think so. The organisation of the co-operative sale societies will make it difficult for them to compete with the *beparis* or the *goladars*. I must say however that the difficulty will only be in the beginning but after a few years the co-operative sale societies will be able successfully to conduct this business.

Are you aware that wherever co-operative sale societies have been started in this Province they have all proved a failure?—Yes, that is my own experience. As a director of the provincial bank I have known of such instances. I, however, think that failures were due mostly to indifferent management and want of honest men in charge of these sale societies.

How would you improve that state of affairs?—Government co-operative inspectors might be asked to inspect these societies at least once in a month or so and check the stock.

Will you debit the cost of such inspection to the sale societies?—Yes, certainly.

Chairman: Would that not raise the overhead charges of these sale societies and thus make them more expensive than the existing system of *goladars*' business?—It might, but that is a matter of detail to be worked out.

When you advocate the starting of co-operative sale societies you do it purely with the idea of conferring some advantages on the agriculturists in regard to marketing their produce?—Yes, that is my sole aim.

Professor Batheja: Supposing there are licensed warehouses supervised by Government where the cultivator can deposit his grain and obtain a receipt for the same. On the strength of such certificates do you not think he will be able to secure credit from the banks?—Yes, that I consider is a good suggestion. I think they will be able to get cheaper credit on the strength of those receipts. I think the joint stock banks will advance loans on the strength of such certificates.

What other needs of the cultivator have you in view when you suggest the formation of these grain *golas* or sale societies?—At present the cultivator finds it very difficult to convey his grain to the nearest market because sometimes he has to carry it several miles which means expenses on cartage, but if these sale societies could be opened at convenient centres he can avoid spending much on cartage.

Do zamindars resort to money-lending?—Yes, some of them do.

Is a zamindar as a money-lender better than the professional money-lender?—Here again much depends on individual cases. Some zamindars who are really interested in their tenants sometimes even advance loans without any interest whatsoever, whilst there are others who demand high rates of interest from their own tenants and gradually oust their tenants from their holdings.

To which class of zamindars does the majority belong?—Zamindars who advance loans are in a small minority compared with the total number of zamindars.

Mr. Hodze: Do you think that the co-operative sale societies have failed from causes which are preventible?—I think so.

Do you think that if these sale societies were organised on a large scale under good business management they might succeed?—I entirely agree. These sale societies have failed only because of bad management.

Professor Batheja : Mr. Yuus, may I ask a question which is outside the scope of your memorandum? Is there a general prejudice on the part of Musalmans to accepting interest in this Province?—Of course, there are some who take religious objection in doing so. They neither accept interest nor pay interest.

Chairman : Do those people form a very appreciable portion of the Muslim population in this Province?—I think they are only in a very small minority at present.

Professor Batheja : Do you not think there are some Musalmans who do money-lending business also?—Yes, there are.

Chairman : You do not think there is any need to make any special provision to meet the requirements of those Muslims who entertain religious feelings in this matter?—I do not think any special provision is necessary.

You do not think they are sufficiently numerous?—No.

Professor Batheja : What do such Muslims do with their money?—They sometimes invest their money in lands while others deposit their money in banks and accept no interest.

Do Muslims deposit large sums of money in banks?—Some do, those who can afford to do so, but they are in a minority I think. The whole idea is that Muslims are not expected to make profit out of the misery of their fellow beings and should not accept anything more than they lend. That is the idea. To avoid the religious objection people make transactions in kind by previous arrangements.

As a member of the public and not as Secretary of the Bihar Landholders' Association, are you in favour of discouraging the practice of money-lending by the Kabulis?—I am in favour of the proposal in every capacity.

Are you in favour of imposing some legal restrictions on the money-lending operations of these Kabulis?—Certainly. If it could be done it will be a great boon to the agriculturists and others who resort to the Kabulis for their requirements.

Do you think that the Kabuli performs an essential function in financing agriculturists which may not be performed by any one else if he is eliminated?—That is true.

But is it good then for the Kabulis to advance money to people without any credit whatsoever?—But somehow the Kabuli is sure that he will be able to get back his money with interest.

Can you suggest the means of legislation to restrict their operations?—Fixing of a particular rate of interest and prohibition from their resorting to threat or force.

Do you contemplate the restriction of the rate of interest to the Kabulis alone or all classes of money-lenders?—I would make a restriction for all classes of money-lenders including the Kabulis.

Chairman : Have you any experience of the working of the Usurious Loans Act?—Yes, in one or two cases.

Is that ineffective?—Much depends on the way in which the judges interpret the provisions of the Act.

Do you think it will be advantageous to fix or indicate a rate of interest above which it would be considered usurious?—I think if some such provision is made in the Usurious Loans Act it will be very effective.

Do you think that any rate above the rates of interest at which the co-operative banks lend to the members should be considered usurious?—That will be a good provision.

Professor Batheja : Would it be possible to fix a uniform rate like that in view of the fact that the nature of the securities vary?—I agree with you but some such restriction, if made, will be very salutary. Even the rates at which the co-operative banks lend out at present are very high.

But is it not a fact that the co-operative societies lend on very unsatisfactory security entailing great risk?—Then it would be better not to lend at all on such securities.

Chairman : Do you anticipate that if some such restriction on the rate of interest is made there will be a general tendency to keep that figure as the maximum?—I think so.

Are you aware that some such provision has been in force in the Santal Parganas for several years now but still people are evading the law in several ways?—Yes, I know people take large sums of money as salami. Personally I have no knowledge of the working of the law in Santal Parganas.

Do you think it desirable to prohibit the realisation of compound interest as well as fixing the rate of interest?—It will be a great help to the agriculturist if that could be done.

Have you ever heard that there is a tendency on the part of courts interpreting the Usurious Loans Act to disallow compound interest?—Not in many cases that I am aware of.

Wednesday, December 18, 1929.

CUTTACK.

PRESENT :

Mr. HUBBACK (<i>Chairman</i>).	Rai Bahadur BANSIDHAR DHANDHANIA.
Mr. BATHEJA.	Rai Bahadur RADHA KRISHNA JALAN.
Mr. HODGE.	Rai Sahib LOKNATH MISRA.

**Rai Sahib MADHAB CHANDRA MISRA (Late Officiating Collector),
Subdivisional Officer, Cuttack.**

Replies to the Questionnaire.

PART I.

AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. (a) Generally the needy *raiya*s borrow money and paddy from *mahajans* living in the village or adjoining villages to meet the labour charges for weeding, transplantation and for purchase of seeds. They also borrow money for purchase of plough cattle. The village *mahajans* of each village are substantial *raiya*s. The poor *raiya*s mostly depend on them whenever they are in want. An ordinary *raiya*t by his thrifty habits or by miserly living saves something from year to year which he utilizes in giving out petty loans and thereby his purse is increased. He stores savings of paddy, *biri*, *maung* in his paddy granaries in his house and lends both paddy and money to his co-villagers. He is called the *mahajan* in the village. The money or paddy loans are usually taken for agricultural expense from the *mahajan* from the months of *Baisakh* (April), *Jaistha* (May) or *Asarh* (July) and are repaid after the crops are harvested in the months of *Falgun* (February) or *Chaitra* (March).

(b) There is no such idea of effecting permanent improvements to the lands either by the landlord or *raiya*t. A *raiya*t cannot make any capital or permanent improvement on his *raiya*ti lands without the consent of his landlord. An ordinary *raiya*t (agriculturist) never tries to effect any such as ordinarily he is without funds and does not think it profitable to borrow for the purpose as the usual rate of interest would

more than swallow the outturn of any of the lands improved. It is only people in good circumstances who with the consent of their landlords effect improvements of lands. The number of such people is very few in this district.

(c) For payment of rent at the *kist* time, especially for the agriculturists, the general practice is to borrow money not for interest but as advance for supplying paddy. Under this system they have to sell paddy at a *gouni* more than the cheap rate that is to prevail in the months of *Pous* or *Magh*. This is known as *kadhia* system.

When there is sign of failure of monsoon and rain becomes scarce, the agriculturist tries to supply water by artificial means of bringing water from a distance if he can and generally incurs certain amount of expenditure and for that he borrows money as well as paddy for payment to labourers. The *mahajans* press for security in shape of mortgages and pledges.

When there is actual drought or flood and crops fail, the ordinary agriculturist cannot provide with food the members of his family and meet with his other wants. He either pledges some ornaments or utensils or mortgages his lands with some village *mahajans* and gets a small loan a part of which is spent for the food of his family and the rest for his passage money to Calcutta or other business centres where he goes to earn his livelihood as a labourer.

An ordinary agriculturist gets very little saving from the produce of his lands after he meets the year's consumption. It is difficult for him to make up the loss in one bad year out of the profit of the next good year unless he has an additional income by way of earning of one of the members in Calcutta or other business centres inasmuch as wages in mufassal does never go above 5 annas per diem in busy season whereas they get higher wages in towns.

THE RATES OF INTEREST, THE PERIOD FOR WHICH LOANS ARE
TAKEN, THE NATURE OF SECURITY REQUIRED.

The rate of interest in bonds of simple mortgage of lands and handnotes varies from 25 per cent. to $37\frac{1}{2}$ per cent. per annum and in petty loans it is one anna per rupee per month, i.e., 75 per cent. per annum. The period for which loans are taken generally varies from one to three years.

In cases of usufructuary mortgages of lands, no interest is charged. The mortgagee enjoys the produce of the land mortgaged towards interest. The lands are redeemed when the principal is repaid in the month of *Chaitra* of any year (corresponding to March) before the commencement of cultivating season. The period varies from three to nine years. The statutory period is nine years. If the loan is not repaid during this period, a fresh usufructuary mortgage-deed is executed for the same lands.

It is only paddy loans which are taken for a season of the year say five to seven months from June or July till the crops are harvested.

The rate of interest varies from 15 to 20 *gounis* per *bharan* of 80 *gounis*. If the paddy loan is not repaid in the harvest season, the interest is added to the principal and thus compound interest is realized. The *mahajans* do not get decree on compound interest in courts. The paddy *mahajans* generally use *khatas* for the purpose of giving loan in which the debtors put their signatures or thumb impressions in token of receipt of paddy loans.

The nature of the security required generally is landed property or pledge of ornaments or utensils. Security of standing crops is seldom had recourse to.

PARTS PLAYED BY GOVERNMENT AND OTHER BANKS IN AGRICULTURAL FINANCE.

Agricultural finance is generally met by village money-lenders and paddy *mahajans*. The Imperial Bank of India, the Joint Stock Bank and other bankers have very little to do with it. The elaborate procedure required by rural co-operative credit society prevents its funds from being available to the ordinary agriculturist in proper time.

The Government only grant small loans known as *takavi* in exceptionally bad seasons under the Agriculturists Loans Act for purchase of seeds. Government are also ready to give loans for improvement of lands under the Land Improvement Loans Act. The zamindars and tenants in this district have not taken any loan from the Government for improvement of their lands. I made enquiries in my tours and came to know that the people do not know anything about taking loans for improvements of lands from Government. The canal irrigation system in the irrigated areas and agricultural embankments in the protected areas maintained at the cost of Government are a great help to the people in the matter of improvement of lands and agriculture. There can be no such improvement without the embankments. Government plays a very important part in agricultural finance.

DEFECTS IN THE PRESENT SYSTEM.

The agriculturist is at the mercy of the man who has a store of paddy to lend and who works according to the exigencies of time and necessity to the ruin of the debtor so far as he can.

The real defect in the present system is that money or paddy is not easily available to the ordinary agriculturist in time of need and this gives the village *mahajan* or outsider *mahajan* an importance which he does not deserve and scope to charge a higher rate of interest.

REMEDIES SUGGESTED.

(1) A ready money-lender to give loans at a low rate of interest in every village.

(2) A grain store in every village or group of villages from where the agriculturists can borrow paddy in the cultivating season to repay during harvest.

This can be facilitated by legislative measures in the following manner, namely:—

Any one or more people may be recognized as forming a village bank with a minimum capital of Rs. 3,000.

The restrictions to be laid down in their business transactions should be in the nature of—

- (a) Penalising rate of interest higher than a fixed maximum rate.
- (b) Compelling them to maintain system of accounts just in the manner in which the landlords are compelled in their dealing with their tenants in the matter of rent.
- (c) Giving them a sort of security by way of giving preference to their loans over any other loans in the matter of ready realisation by a certain summary procedure and also by giving preference to them in cases of insolvency of the debtors.
- (d) Their accounts should be periodically examined or audited by responsible Government officers who should also hear and dispose of complaints.

As to how far a rural co-operative credit society may be made to work in this line, wherever it exists, is a thing for consideration if the present suggestion is given effect to.

In this connection it may be suggested that in a village or group of villages it may also happen that there are one or two substantial people, but there is no money-lender forthcoming to constitute a bank. They may not have ready cash or paddy for the purpose. To cope with this difficulty an agricultural central bank at the headquarters station of each thana may be established and loans may be advanced to the extent of Rs. 3,000 on substantial security for agricultural loan purpose to the village bank applying for the same. The number of greedy village *mahajans* will gradually decrease with the increase in the number of such banks.

CO-ORDINATION AMONGST THE VARIOUS CREDIT AGENCIES, INCLUDING GOVERNMENT, AND SCOPE FOR IMPROVEMENT IN THIS DIRECTION.

There appears to be no co-ordination between the various existing credit agencies; but the above suggestion may with profit be utilized in this direction in co-ordinating the various forces under work including the Government.

AN ESTIMATE OF THE TOTAL CAPITAL REQUIRED FOR THE DISTRICT.

It is rather difficult to make a rough estimate. For this purpose the village may be taken as a unit. The village which I surveyed in connection with the Banking Enquiry contains 186 houses or families, rich or poor (substantial *raiya*s, ordinary *raiya*s, and labourers having no lands). Total amount of loan required for agricultural

purpose is Rs. 450 in a year. There are 5,629 villages in the whole district (Cuttack) according to the Census figure of 1921. The total capital required for agricultural finance can roughly be estimated at Rs. 25,33,000.

MARKETING.

2. The present method of marketing in this district is very miserable. The ordinary agriculturist does not really get any benefit from high rates of price caused by demand of raw products in foreign countries. The benefit goes to the hand of the capitalists who are very seldom local people and they are mostly Marwaris, Kachhis and Maimans who employ local agents. The latter go on advancing money to the agriculturists in proportion to the prospect of the crop. By the time the crops are harvested the money-lenders make their demand, for money, the landlord presses for payment of arrears of rent and urgent needs of the family have to be met with. The village *mahajans* always take their quota of the produce at a privileged rate in addition to the interest paid because he is the only person who helps the agriculturists in time of real necessity. In all these circumstances the ordinary agriculturist is compelled to dispose of his produce at the rate prevalent at the time of harvest.

As a result the ordinary agriculturist who is thus forced to sell away his produce at a cheap rate at the time of harvest, keeps a small portion of his produce with which he manages his family affairs for about five months. He has to purchase the food grain after four or five months at a high rate till the next harvest and has sometimes to borrow at that rate from June to September.

The agriculturists take their produce to the periodical markets which are held in certain local centres where the local retail purchasers purchase them at a local rate. The transaction in this time is very small and the agriculturists cannot get advantage of high rate prevailing in foreign markets.

The question of licensed loan houses pooling together the products of the village for marketing as favourably as possible should be considered with the opening of banks in each village or group of villages as suggested before. An attempt will have to be made to get it done by the same banking agencies. If carefully supervised, the licensed loan house scheme may work successfully.

There is neither any credit facility for marketing of products or any banking facility for such financing. The only possibility that can be suggested is that village banks may be taken as agencies to purchase and store products during harvest and sell them at favourable rate according to the demand for foreign market. The margin of middleman profit will go to the village bank who, after deducting the expenses of storage, etc., may distribute the profit among the *raiya*s who sold their products to the bank. It may be noted here that the expenses of storage will not be very great. The methods of storing in mufassal are such that they do not require big warehouses entailing big expenditure.

The system of keeping paddy in pits or in straw heaps or in granaries made of earth, bamboos and wood are cheap means of storage prevalent in this district. I think a village bank and the village store will be a purely village concern which the villagers can run when they will understand the benefit under the system subject always, however, to Government control.

The road communications in the rural areas are not at all satisfactory, specially in the flooded areas of the district. The advantage of exporting the products to foreign markets depends much on good communications. The Public Works Department and the district board should pay more attention in this direction.

VALUE OF LAND.

3. The value of land per acre varies from Rs. 50 to Rs. 700 and the causes of variation are given below :—

- (1) The value of the land per acre in the canal-irrigated area varies from Rs. 300 to Rs. 700, according to the classes of the soil. The soil is mostly *dorsa* (mixed with sand and clay) and *matal* (clay or sticky clay). The soil helps luxuriant growth of winter rice crop.
- (2) In the protected but not irrigated area, the value of the land per acre varies from Rs. 150 to Rs. 400. The soil is mostly *dorsa*. The area under *matal* is comparatively less than in the canal-irrigated area. *Baliara* soil (more sand with little clay mixed) is also found in this protected area.
- (3) In the unprotected and flooded area, the value of the land per acre varies from Rs. 50 to Rs. 250. The soil is mostly *baliara* (more sand with little clay mixed). The area under *dorsa* and *matal* is small. Silt is deposited in small quantity. The deterioration of the soil in this area is caused by sand deposit. In many places the lands are scored and *nalas* (water-courses) are formed by ravages of flood.
- (4) Apart from the above consideration, the lands for garden purposes such as betel leaves, plantain or cocoanut plantation and jute lands fetch fancy prices, about Rs. 400 to Rs. 600 per acre.

This is a rice-producing district. The paddy land is more valuable than *rabi* lands. Generally the *rabi* lands are inferior in quality. Wheat and barley are not grown for want of irrigation arrangement. The main *rabi* crops are *kulthi*, *biri*, *mung*, mustard which are chiefly grown on flooded areas. *Rabi* crops are also grown in certain areas of the protected and irrigated areas. *Bhadai* paddy crop (called *biali*) and *mandia* crops are grown in protected and flooded areas. Sugarcane is grown in irrigated, protected and flooded areas. The outturn of the crop in the irrigated area is more than in the protected and flooded areas. *Kulthi*, *biri*, etc., are less important than paddy and sugarcane. Jute crop is grown in canal-irrigated and protected areas.

The value of lands sometimes soars high when there is competition among different purchasers for purchase of the same land. They are generally rich, substantial *raiya*s or *mahajans*. They do not care for paying any amount of mutation fees to the landlord on the high rate of the consideration money at which they purchase the lands on competition. Sometimes the foreigners purchase the lands at high rates.

In comparing the values in (1) Government sale for non-payment of revenue (revenue is perhaps a mistake for rent), (2) sale in court decrees, (3) private sale, the latter (as stated above) fetches more than either of the above two.

As regards Government sale for arrears of revenue, there is no such sale of agricultural lands. The proprietary interest of certain zamindars is sold for arrears of revenue with which the agriculturist has got only the interest of a charge of landlord. It probably means the sale of *raiya*ti land in Government auction for non-payment of rent. No doubt people should bid here for a higher value for two reasons: (1) it being free from all incumbrances, (2) the purchaser not having to pay one-fourth of the consideration money to the landlord for his recognition. But unfortunately there are very few bidders except the landlord and his *benamidars*, if any, on account of non-circulation or non-publication of writ of sale. As the sale takes place not on the spot but at the headquarters station of the rent court, the landlord or the *benamidars* purchase it at very low consideration without the knowledge of the villagers. As regards the sale on Civil Court decrees it is said that the courts use discretion and almost always refrain from the final call if the price does not seem adequate and sometimes a republication is ordered. Hence the price of the sale in the Civil Courts sale is a bit more favourable.

LAND MORTGAGE BANKS.

4. According to the provisions of the Orissa Tenancy Act the consent of the landlord is necessary for mortgaging any land and agricultural holding. This is the legal impediment. The consent is optional with the landlord. I have not come across any case of simple or usufructuary mortgage to which landlord's consent is taken. In practice such transactions for short-terms are going on freely everywhere. In case of a long-term mortgage, it is not valid against the landlord for more than nine years as laid down in the Orissa Tenancy Act.

There is no mortgage bank or agricultural bank in this district. Above a certain maximum the agriculturist and landholder should be referred to the thana bank or district bank with a recommendation. The village banks up to a certain maximum and the thana bank and the district bank always should work as mortgage banks as well.

As already suggested, the banks should be given preference in matter of realisation. A summary procedure to realise will meet the requirements without any further change in the record-of-rights. The matter of registration will have to be simplified in bank loans when an entry

in the bank register with the signature and thumb impression of the debtor will do. Details can be worked out.

The working capital of the mortgage bank may be drawn from all the three sources in certain proportion :—

- (1) Deposits.
- (2) Fund from central institutions, if any.
- (3) Debenture bonds with Government guarantee.

The preference of bank loans in matter of realisation is sufficient security either for Government or private individual and no other security is necessary. There is criminal law to deter people from making false representation in order to deceive either the bank or other money-lenders. When people will come to know that the bank loan will be given preference nobody will lend money to one who has already taken a loan from the bank. The private money-lenders will be compelled to deposit money there and will not compete with agricultural banks and the latter will not be hampered for want of capital.

INDEBTEDNESS.

5. A village bank with Rs. 3,000 as capital for the start, the system will work itself. It is difficult to ascertain within so short a notice the total existing indebtedness of the agricultural classes.

A rough estimate of a particular thana can be had from the figures of—

- (1) Small cause court suits and money suits in the course of one year.
- (2) Figures of bonds registered in the registration offices.
- (3) Income-tax figures of professional money-lenders submitted in the Income-tax office.
- (4) The Chaukidari Union Presidents who should make careful enquiries in each village of their respective unions, their figures will be reasonably accurate.

I made a survey of one village, which is an ordinary agricultural village in the flooded tract of the Sadr subdivision. I ascertained the total existing debt in the village money and paddy amounting to Rs. 4,664. About Rs. 2,100 or 45 per cent. of the total debt has been secured by registered mortgage.

As to purpose for which loans are incurred, purposes indicated in *a, b, c, d, e, f* and *g* are generally the reasons for taking loans. As to improved agricultural implements money is seldom used. People spend much money on marriage, social, religious and other ceremonial occasions. They purchase gold and silver ornaments for the bride and also for the bridegroom and have to pay bridal money. Dowries are given to bridegroom according to his demand. The system of payment of bridal money and the dowry system are baneful. For the good of the country legal steps should be taken to eradicate these evil systems

if possible. The income of some of the agriculturists is not such as to meet these heavy demands. They have no other alternative but to borrow money and paddy on such occasions from the professional money and paddy-lenders who charge high rate of interest. I have ascertained in my enquiry that 44 to 50 per cent. of the total debts of the agriculturists is spent on marriage, sacred thread, social and religious festivities and other ceremonial occasions. The professional money-lenders are the only agencies of credit, of course, saving the co-operative credit societies which form a minor factor in the district.

As regards rates of interest, etc., they have been already dealt with above.

Yes, there are many instances in which efficient farmers have turned into tenants-at-will for a period by the lands passing into the hands of the creditors. The idea of ownership is so very closely connected with a real incentive to work that it does cease as soon as the idea of ownership disappears and the position of the tenant dwindle down to that of a mere day labourer with a very temporary interest in it. In many cases it so happens that the creditors (transferees) do not give the land to the *asal raiyat* from whom they have purchased the same. They keep the lands purchased in their *khas* possession or give the same for cultivation on *dhulibhag* on written or verbal agreements from year to year to persons other than the transferors (*asal raiyats*). The reason is that the transferor (*asal raiyat*) if he is allowed to continue in cultivating possession may deny the sale and say that he received no consideration and that the *kabala* (sale deed) executed is a *benami* transaction and that the creditor (transferee) never took the land to his possession since the date of purchase. He may claim the *asal raiyati* right which he has already transferred. The creditor (transferee) does not think it safe to give the land for cultivation to the transferee (*asal raiyat* or efficient farmer). The agricultural lands are gradually passing into the hands of the creditors. Their holdings are becoming larger and larger. They are substantial persons having multifarious business to attend. They are unable to devote whole time and attention for the proper cultivation of the lands. The cultivation is thus becoming less efficient.

6. Subsidiary industries allied or supplemental to agriculture are not many in this district. I give below a short description of the industries existing in this district :—

(1) *Rice-milling*.—There is no rice mill in the interior. There is one called Surajmall Bindeswar Prashad firm at Ranihat in the town of Cuttack belonging to Babu Madan Jall. Paddy is purchased and brought from the interior and rice is prepared in the mill. About 200 men are working daily in it. There is great scope for rice-milling in the interior. Such rice mills if established at different central places in the interior would supply ample labour to labouring class in the interior.

(2) *Oil-milling*.—There is no oil-mill in the interior. There is one oil-mill at Ranihat in the Cuttack town belonging to

the same firm of Babu Madan Lall mentioned above. The firm gets supply of sufficient quantity of mustard and sesamum seeds from the Orissa Feudatory States. It is not desirable to establish any oil-mill in the interior. The produce of the oil-seeds crop is not sufficient for the *ghanis* (wooden country oil-mills) of the oilmen of each village.

- (3) *Dairy farming*.—There is none worth the name in this district. A proposal is set on foot to open a dairy farm near the Government Agricultural Farm at Bidyadharpur. It is not ripe yet.

The ordinary agriculturist is not benefited by this. He keeps two or three ill-fed cows whose dung he uses as manure or cake for fuel. They are country-bred cows feeding on what is available in the village pasture lands which are not kept in proper condition and sufficient grass is not available there. The villagers make no attempt to improve their conditions.

- (4) *Gur-making*.—It is connected with sugarcane cultivation. The co-operative department in this connection has successfully introduced the cultivation of different kinds of sugarcane crop in the interior among its members to whom money is available from the society. With the extension of sugarcane cultivation *gur*-making is sure to extend over the country. The sugarcane pressing machines are supplied in large numbers by different companies and they are generally let out on hire to the cultivators.

- (5) *Garden produce*.—People have not yet fully awakened to this sort of extensive cultivation which is prevalent in other advanced countries. They are however seen taking interest in the plantation of cocoanut and plantain trees. The cultivation of potatoes, onions, brinjals, pumpkins, gonds, ginger, groundnut, etc., is gradually extending. Good manure and irrigation arrangements are not sufficient. An ordinary agriculturist lacks in the knowledge of gardening. The officers of the Government Agricultural Farm shall make it a point to tour in the interior and teach the agriculturists in gardening and in the preparation of land and manure and irrigation system.

- (6) *Jute-made durries*.—This is connected with jute cultivation and is a new subsidiary industry which has recently started in a village called Narilo in Kendrapara subdivision. The durries of different sizes (small and large) are prepared out of jute fibre and sold at a cheap rate—much cheaper than the cotton durries manufactured in Buxar Central Jail. They are thickly woven and strong and durable. The villagers are goalas by caste and have paddy and jute cultivation. The industry deserves encouragement.

(7) *Cotton and spinning*.—The area under cotton cultivation in this district is small. With the advent of the *charka*, widows in certain quarters have again taken to spinning, but it has not yet been accepted as a subsidiary occupation by the masses. As regards cotton ginneries there is no scope for it as there is little cotton cultivation.

The Orissa soil is favourable for cotton cultivation and it has been successful whenever introduced, but still the masses for their idleness have not yet taken to it as something to be cultivated for profit.

Cotton spinning or ginneries would provide to the country another avenue for labour in spare times, both for men, women and children. It is an important part of the cottage industry. Dyeing, painting cotton fabrics and also bleaching would come along with it. That will give enough employment to the agriculturist in his unemployed time and will keep him busy.

Small industries like hosiery, poultry farming, oil-pressing, beekeeping, and coir-making, rope-making, mat-making are worth mentioning here. If earnestly worked out, any one of them will keep a family sufficiently engaged in spare or unemployed times. They require demonstration in rural villages and with capital easy at hand people are sure to take them up.

The difficulty in the way is the working capital. This can be solved by application to the village or district agricultural bank. The necessity will be considered there and if it is for the productive purposes, money must be given to the applicant.

7. So far my information goes there are no relations existing between (1) the Co-operative Bank, (2) the Imperial Bank of India, (3) the Joint Stock Banks and (4) the Indigenous bankers.

Regarding co-operative society, the people say that the loan is not easily available and that the procedure is elaborate. As an experimental measure, an attempt should be made to develop it on the lines of agricultural banks or agricultural mortgage banks stated before.

PART II.—INDIGENOUS BANKING.

1. There is no such indigenous bank in this district if the *mahajan* (village money-lender) is not styled as a bank or banker. Of course he does not receive deposits from others and has no dealing in *hundis*. The village *mahajan* lends out money or paddy to the ordinary agriculturists when the latter are in need to meet cultivation expenses and marriage and other social ceremonies. Their object is to charge high rate of interest and to purchase lands when the agriculturist is unable to pay the amount of loan incurred with interest. They take bonds registered or unregistered for the money or paddy advanced, handnotes as securities. Ornaments and utensils are also pledged. Their dealings with the debtors are not good and honest. They do not give receipt to the debtors if part

payments are made by them towards interest or principal. No note of such payments are made on the deeds until the full amount including the interest is paid. Answers to question 1 of Part I will throw light on the point.

2. The indigenous banker (village *mahajan*) helps to some extent in financing agriculture in way of giving loans to the ordinary agriculturists to meet cultivation expenses, and to carry on petty trades; but he has not sufficient fund at his disposal to help in carrying on trade and industry on a large scale.

3. There is no organization of the indigenous banking system in this district.

(a) None.

(b) None.

(c) None.

(d) None.

4. None.

5. *Vide* answers to question 1 of Parts I and II above.

Sometimes the village *mahajans* get cash loans at interest of $12\frac{1}{2}$ or $18\frac{3}{4}$ per cent. per annum from the big *mahajans* in the town and advance loans at higher rate of interest, 25 to $37\frac{1}{2}$ per cent. per annum, to the ordinary agriculturists of the village or neighbouring villages.

6. 25 to $37\frac{1}{2}$ per cent. on cash loans and 16 to 20 *gounis* per *bharan* (80 *gounis*) of paddy loan as stated before.

The *modus operandi* of the village bank has already been mentioned. Cash loan should be given at $6\frac{1}{4}$ or $9\frac{3}{8}$ per cent. per annum to the agricultural community and paddy loan at 10 *gounis* per annum per *bharan*.

The reduction in the rates of interest will embolden them to improve agriculture and to utilize their crops to other supplementary vocations. This will increase their earning and raise their standard of living.

7. There is strong prejudice against the indigenous bankers (village *mahajans*). They are a set of greedy, exacting and oppressive people. Most of them use force sometimes to realize their dues at high rate of interest or compound interest which the debtors are unable to pay. They bring suits often in courts and get decree though compound interest is not allowed. In many cases they refuse to redeem the bond (though the loans are repaid), unless the full amount of interest or compound interest is paid. They are so very covetous and close-fisted that they do not allow any remission in their demand. These are all undue exactions and oppressions. The holdings including the homestead lands and houses, doors, etc., are put to auction sale and purchased by them. They dispossess the debtors from their holdings. In some cases the poor agriculturists (debtors) are unable to fight against them in courts and are compelled under threats of the creditors to sell their holdings to them. Many criminal cases crop up. The debtors become desperate. There

are instances which show that these desperate people take revenge in making away with such oppressive *mahajans*.

The proposed village banking system I think will do away with this class of oppressive creditors.

8. The best way of making this class of indigenous bankers (village money-lenders) serviceable to the community is to penalise the high rate of interest by legislation and to fix rate of interest at $6\frac{1}{4}$ or $9\frac{3}{8}$ per cent. per annum by legislation to avoid accumulation and compounding of interest.

There can be no improvement in the indigenous banking system unless the bankers (village money-lenders) are made to work honestly and give up their covetous habits which are so deeply ingrained in them. This I think can be done with Government interference wherever possible.

The special facilities have already been mentioned in connection with the proposed village bank and they are the only one that could be recommended for their benefit.

There might at first be some objections on their part against regulating their operation but after some time the honest bankers will like it.

9. The net return to the village *mahajan* (village money or paddy-lender) is roughly about 25 per cent. on the capital invested.

10. Instances are not wanting in which the indigenous banker (village *mahajan*) refused demands of the agriculturists owing to the insufficiency of their capital.

11. I would suggest that the establishment of a central bank or branch of a joint stock bank, referred to in the question, is a means of connecting the indigenous bank with the central money market.

12. In this district, money in the hands of the indigenous bankers (village *mahajans*) is not so large as to remain idle in their hands. But in exceptional cases where there is enough money it does not go to provincial capital for loan either for long or short terms. If village agricultural or mortgage banks are opened, I think the Government servants, pleaders, mukhtears and others who are serving in private capacity elsewhere, would contribute a large amount of capital towards making their village and central banks a success.

PART III.—INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. So far I know in the towns there are various facilities for encouraging savings and investment habits, but in mufassal (rural areas) there is none except the postal savings bank system. The co-operative union bank may be improved in the lines of proposed village agricultural bank or village mortgage bank and extended in the smaller interior places. As it is, the ordinary agriculturists would not like it for its lengthy procedure. Its basic principle should be changed. An experiment should be made in this direction.

The Oriya women are very fond of wearing gold and silver and brass ornaments. They like that their whole body from top to toe should be covered with ornaments. They press their husbands for ornaments and

good *saris* (cloths) for themselves and their daughters. A woman is looked down in the society if she has no good ornaments on her person. Even young men and boys in the rural areas are seen wearing gold earrings, gold necklace, gold rings and waist chain, silver or gold bangles. Family gods are also adorned with gold and silver ornaments. Gold and silver ornaments and good cloths (silk or cotton) form also an important item in marriage ceremonies. A greater portion of the saving of the agriculturist is thus spent in gold and silver. This increases the purse of the gold-smiths, who at times cheat the ignorant mass and who are gradually becoming richer and richer. Many jewellery shops have been opened in the town and in the mufassal. The number of such shops is on the increase. The liking of the people towards ornaments is also on the increase. Unless this tendency is checked, it is idle to expect any improvement in the economic condition of the cultivators. This habit is deeply rooted in them and it is very difficult to eradicate it. This can only be remedied in course of time by spread of education among the mass in each village.

2. There is postal banking system in the mufassal; but it is a pity that only a few post offices and not all are empowered to open Savings Bank accounts. Postal cash certificates are not popular in this district. The change that can be suggested to make postal savings banks and postal cash certificates popular is to increase the rate of interest.

The question of Government competition with other banks can also be solved by the increment of interest.

3. The purchase and sale of Government securities do not require any change. It is not safe to encourage the small agriculturists to deal in Government securities unless and until there is compulsory education and they are sufficiently educated to appreciate the same.

Habits generally of the various groups of people in the district are to invest any surplus money which come into their hands by sale of produce, etc., in purchase of land, gold and silver and next to that in money or paddy lending business or small shopping in the village. Some of them hoard their money in chests or in pits under the floor of their bed-rooms without using it in any profitable concern. I think such ignorant people will wake up when the proposed agricultural bank will be started and work successfully in their villages and they will deposit their savings in it.

The farmers sometimes lend to their fellow-agriculturists in time of need. This help is not in money but in kind. When the agriculturist is in need of small quantity of paddy or *rabi* seeds, he does not go to the money or paddy *mahajan*. He is on intimate or friendly terms with his fellow-agriculturist who, out of fellow-feeling, complies with his request if he has any surplus with him. No interest is charged for such small amounts of loan. The loan is repaid at the time of harvest. Such transactions are very few and do not meet the full demand of the agriculturist for which they go to money or paddy-lender.

4. There is no cheque-habit among the people in the rural areas of this district, there being no bank or banking agencies for the purpose.

With the establishment of village banks and central banks to connect them with the central money market, the habit may be created.

The vernacular scripts in banking will be more popular.

5. Yes. In India the banking and investment habits is of slow growth owing to (1) want of co-operation and united effort, (2) ignorance and want of enterprise, (3) poverty.

Government propaganda will no doubt have some effect. The establishment of the proposed village agricultural and mortgage bank and success of small industries can encourage people to invest money in the banks.

Oral Evidence.

Chairman : Rai Sahib, you are at present the Subdivisional Officer, Sadr subdivision, Cuttack, and you were officiating Collector for a couple of months?—Yes.

Is your experience mainly confined to the Orissa division?—Yes. I have also served for about four years in Settlement in Gaya and Shahabad.

Have you served in all the four districts of the Orissa division?—I have mostly served in Cuttack.

Have you any experience of Sambalpur?—No.

You say that a *raiya*t cannot make any capital or permanent improvement on his *raiya*t lands without the consent of his landlord. Is that absolutely correct?—There is a provision in the Tenancy Act that the tenant cannot make any improvement without the consent of the landlord which would materially impair the value of the land.

Professor Batheja : Is this consent generally granted by the landlord in Orissa?—Not in all cases. If the *raiya*t wishes to dig a well in his *raiya*t holding he is permitted to do so but a tank is not permitted.

Chairman : Is any charge made for this?—No.

Professor Batheja : What is the objection of the landlord to a tank?—Because it makes the land permanently unfit for cultivation.

Mr. Hodge : You say that the rate of interest varies from 25 to 37½ per cent. on simple mortgage of lands and one anna per rupee per month, i.e., 75 per cent. per annum on petty loans. What is the basis of these figures?—This is a well-known fact. I have seen many mortgage deeds and I say it from my personal knowledge. Loans on interest at 75 per cent. are given for very small amounts for which no mortgage deeds are executed. In some cases hand-notes are taken as securities and in some cases ornaments and utensils are pledged.

You mean these figures can be easily verified?—Yes. The 75 per cent. rate is charged only in cases when the *raiya*t is in pressing need of some money to meet his emergent requirements.

Chairman : Do you think a large number of cultivators go usually to Calcutta for finding work there in the off-season?—Yes.

Do they find difficulty in raising their fare to Calcutta?—Yes.

Is that the case in which he might borrow at this exorbitant rate?—Yes.

Is it very frequently happening?—No.

You say that the rate of interest for paddy loans varies from 15 to 20 *gounis* per *bharan*, that is to say, from 18½ to 25 per cent. Have you ever come across a paddy loan at more than 25 per cent.?—No.

Do you not think that more than 25 per cent. is charged in the outlying parts of Cuttack?—No.

Professor Batheja : Would you be surprised if somebody says that 50 per cent. is charged in certain outlying parts of the district?—If a *raiya* takes loan of one *bharan* of paddy in the month of *Asarh* and repays it in the following harvesting season, he pays interest at 25 per cent. If he cannot repay the loan that year, the interest is added to the principal and the whole amount becomes the principal on which interest is charged in the next year and so on. That is compound interest. I have never heard of 50 per cent. on the first transaction.

Chairman : You were Subdivisional Officer at Jajpur. What was your experience there?—The *mahajans* do not charge more than 25 per cent. there.

Would you say that 25 per cent. or 20 *gounis* in a *bharan* is the ordinary rate?—Yes.

R. B. Dhandhanias : Is the price charged the same when it is paid as when it is borrowed?—No. At the harvesting time it is cheaper than at the time of sowing when loan is taken.

Chairman : In these transactions is both the loan and the payment made completely in grain or is it transmuted into cash at both ends?—Mostly in kind.

In Bihar we have evidence that although the grain is actually handed over the transaction is booked as a money debt at the rates prevailing at the time of the loan. It is then rebooked again as payment against that debt in rupees although the actual transaction is again in grain. That does not hold good here?—No.

Professor Batheja : Have you any experience of *takavi* loans to agriculturists?—Yes.

Is there any complaint on the part of the public that they get these loans either very low or with some difficulty?—I have heard no complaint.

Is any *dasturi* paid?—No.

Is *takavi* paid by Government in those cases where the area affected is comparatively small but the distress is acute?—Yes.

What would be the minimum area for which Government sanction *takavi* advance in your experience?—50 to 100 acres.

Have you ever come across Government advancing *takavi* in any smaller area than 50 acres?—No.

Is the *takavi* advance given to agriculturists adequate?—It is given at Rs. 2-8-0, Rs. 3 and Rs. 4 per acre and is adequate.

Are the peasants compelled to go to *mahajans* for loans to meet their other needs?—Yes. They have to borrow paddy for their food and payment of wages.

Is there any difficulty experienced in inducing Government to sanction adequate *takavi*?—What we ask for is sanctioned by Government. We go on distributing the money cautiously. Sometimes we find that money runs short at the end of distribution. We bring it to the notice of the authorities.

Chairman : In such cases do you not go up for a supplementary grant?—We apply to Government for a supplementary grant which is sanctioned. When the deficit amount is very small, we do not go up for a supplementary grant but reduce the rate a little. Such cases are very few.

Is there any impression that Government would not sanction more?—No.

Professor Batheja : Is there under-estimating on the part of the officers concerned?—When there is a high flood and a large tract of the country is inundated, we make a rough estimate of the area affected and of the loss of crops and a rough estimate of the amount to be required for *takavi* advance. The money is readily sanctioned by Government. As the *raiya*s want the money at once for purchase of seeds and seedlings, we submit our estimate at once and do not wait till the full subsidence of the flood to ascertain the exact cultivated area affected.

Is the inadequacy of the *takavi* grant due to faulty estimating or to the impression that Government would not sanction more advance?—It is not inadequate. The faulty or rough estimate works both ways :—sometimes the area comes more and sometimes less than the actual cultivated area affected. There is no impression that Government would not sanction more.

Chairman : The estimate is faulty because it has to be done in a very great hurry?—Yes.

Why is Rs. 2-8-0 taken rather than any other figure?—We at first calculate at Rs. 3 or Rs. 4 per acre and pay at the rates stated before. We also pay at Rs. 2-8-0 per acre where the *raiya*s are little well off.

R. S. Loknath Misra : What is the basis of your estimate?—We calculate at the rate the paddy seeds or paddy seedlings are selling at the time of distress.

Chairman : For what actual purposes do you distribute relief? What is at the back of the mind of the officer when he reasons that

Rs. 4 an acre will be sufficient?—For the purchase of paddy seedlings and for re-transplantation.

It is not intended to be for the maintenance of the *raiya*t's family?—No.

Do you think that Rs. 4 or the reduced figure of Rs. 2-8-0 is inadequate for the purpose of getting paddy seedlings and doing transplantation after a flood?—Rs. 2-8-0 or Rs. 3 per acre are adequate for purchase of paddy seeds for resowing and Rs. 4 per acre for purchase of paddy seedlings for re-transplantation.

But you usually find when you come to actual distribution that there are more recipients than you estimated in the first instance and, therefore, you have to cut down the amount that can be given?—As we proceed in distributing *takavi* loan in each affected village, we make careful enquiries and reduce rates in cases of these *raiya*ts only who are little well off and can manage resowing or re-transplantation with a little help from Government.

Have you never represented that matter to the higher authorities and got a further grant?—We apply to Government for supplementary grant which is sanctioned. In case where the deficit amount is very small, we do not go up for a supplementary grant and follow the procedure stated in my answer to the above question.

Mr. Hodge : *Takavi* loan is in no sense a contribution for maintenance?—No.

Chairman : When you say that Government plays a very important part in agricultural finance, in Orissa do you mean mainly by these *takavi* loans or are you thinking of something else?—I mean agricultural embankment system and canal irrigation system and also *takavi* loans. In page 3 of my memorandum (printed), the first sentence of paragraph 4 is about *takavi* loan. There is a mistake in the typed copy submitted. It may be corrected :—The words " only " and " exceptionally " should be deleted and *short-term* may be substituted for " *small* " before the word " *loans* ". The sentence will read as follows :—" The Government grant *short-term* loans known as *takavi* in bad seasons under the Agriculturists Loans Act for purchase of seeds."

Professor Batheja : Is there scope for permanent improvements in land in this part of the country?—Yes.

What improvements are possible?—If the zamindars permit the up-lands can be turned into low paddy lands, and tanks or ponds can be excavated on irrigation purposes.

Is there much high land that awaits conversion?—Yes; that is gradually being done.

Do you think money can be borrowed from Government for this purpose?—Yes.

Is it worth while conducting propaganda to inform people that loans under the Land Improvement Act are available?—Yes.

What sort of propaganda would you suggest?—In our tour in the interior, we should meet the villagers in central places and explain the Act to them and also to the landlords. The benefits of irrigation by tube wells and tanks and regular maintenance of zamindari (private) embankments should be explained to them.

Chairman : The conversion of up-land into paddy land does not require much capital. The *raiyyat* can carry this through with his own labour?—If it is a large area then he requires help.

Is that true for the whole of the Cuttack district or is it true in the area close up against the hill?—Chiefly in the area lying between the Grand Trunk Road and the Feudatory States of Athgarh, Dhenkanal and Keonjhar. Banki is included in it.

You suggest that every village or group of villages should have a grain store where they can borrow paddy. Have you any experience of such grain *golas* in other parts of the Province?—When I was at Angul I knew that grain *gola* system was started there.

Has that been successful?—Yes.

Would you suggest this practice all over the Orissa coast districts?—Yes.

Professor Batheja : By means of Government *golas*?—Yes.

Chairman : At what rate do they lend paddy?—Fifteen *gounis* per *bharan*.

R. S. Loknath Misra : Is the interest paid for the whole year if the paddy is paid within two or three months?—The interest is the same whether the loan is for the whole year or part of a year.

If it is kept for three or four years?—Fifteen *gounis* for every year.

Chairman : Would there be any difficulty in selecting sites for these grain *golas*?—No.

Mr. Hodge : Are any of these grain stores operated by co-operative societies?—Yes.

Are they in Angul?—Yes.

Have you any experience of their working?—I have not seen them but I am told they are working satisfactorily.

How far does Government subsidise these *golas*?—I cannot say exactly; but in Angul Government pay the salary of two or three inspecting clerks and gave a grant of about Rs. 30,000 for the buildings.

Chairman : You suggest such a grain store should be given preference in the matter of realisation of their loans over any other loans. What sort of provision are you contemplating when you make that suggestion?—Paddy is given on loan from such grain stores at a lower rate of interest. No compound interest is charged. There is every reason to believe that the borrower repays the loan first to the grain stores and there can be no difficulty in the matter of realisation. It would be better to make a provision to the effect that

the borrower should repay the loan first to the grain store that charges the cheaper rate of interest and does not charge compound interest. By this, the paddy-lending *mahajans* who charge high rate of interest and compound interest should be discouraged. The claim of the Government grain *golas* must be given preference in all courts.

R. B. Jalan : What rate do you propose for these grain *golas* who give paddy to cultivators?—At present 25 per cent. is charged by others. I propose that it should be 10 or 12 *gounis* per *bharan*, i.e. 12½ or 15 per cent.

Chairman : Does any question of dryage arise? Is the paddy given out and taken back by volume or by weight?—By measure (*gounis* made of brass or cane).

If there is any question of dryage it would be very little?—In any case it would not be more than 2 *gounis* in a *bharan*.

R. B. Jalan : You think that 12½ per cent. is enough?—12½ or 15 per cent. In one *bharan* 2 *gounis* should be allowed for dryage.

Professor Batheja : You say any one or more people may be recognized as forming a village bank. What sort of agency do you contemplate to give recognition?—*Panchayat* consisting of five or seven literate men of good character. They must be residential *raiya*ts of the village or group of villages.

Can villagers be persuaded to form themselves into a bank?—Yes. They have no funds and there is no enterprising spirit at present. They can be induced and explained the beneficial results of such banks.

You do not contemplate that these should be started on co-operative lines?—May be tried by the Co-operative Department if this sort of propaganda can be done.

R. S. Loknath Misra : Do you think that these should be run on co-operative lines?—The principle of the Co-operative Department is elaborate. This sort of village bank may be run on the lines of joint stock banks.

Professor Batheja : Would you prefer a simpler machinery for financing the agriculturist than the co-operative society?—Yes.

Chairman : What class of people do you expect to form a bank, the existing money-lenders or some others?—The money or paddy lenders would not join. There are *khush-hash* people—who are literate and who do not borrow nor lend paddy or money and live comfortably on the agriculture produce of their lands. Such people are residential *raiya*ts and are found in every big village or group of villages. They can join this bank.

Do you think that the main reason why they do not join now is that they have no capital?—Yes.

Professor Batheja : Are you against utilising the existing agency of the *mahajans*?—The *mahajans* will not join.

Later on you say that some *mahajans* may be licensed and if they are given certificate facilities then they might serve the purpose

of supplying agricultural finance. Are you contemplating two sorts of agencies?—I prefer the village bank which the *mahajans* might ultimately join.

Chairman : I understand that your scheme for a village bank is that some four or five people of the economically comfortable agriculturists should join together and obtain capital from some financing agency. In return for this capital they would agree to certain restrictions on the method of conducting their business. In the first instance they would work in competition with the village *mahajans* now lending money. This bank would work on joint stock principles and not on co-operative principles?—Yes.

R. B. Dhandhanian : What interest should these banks charge the tenants?— $6\frac{1}{4}$ or $9\frac{3}{4}$ per cent.

Chairman : Which do you think is practicable?— $9\frac{3}{4}$ per cent.

R. S. Loknath Misra : At what rate do you think they will borrow money from the financiers?— $6\frac{1}{4}$ per cent.

Professor Batheja : Is it not possible that some undesirable persons may form such a bank?—We shall have to see whether the man is good or bad.

R. B. Jalan : Do you want to place these under the Collector's control?—Yes.

Chairman : Who would bear the risk of failure to pay the loans advanced by these village banks?—The bank itself.

Do you think that that would be covered by the $3\frac{1}{8}$ per cent. that they will charge over and above the rate at which they can borrow?—Yes.

How would the financing authority be able to recover these loans from these village bankers?—The village bankers will give security for that.

Is it not your first idea that these people would be quite ready to take up the business if they had already got capital?—Yes.

What sort of people do you contemplate who have the security and no capital?—They can give security of their own lands. Substantial *raiya*s but not *mahajan*.

Professor Batheja : Do you think a large number of people will take the risk on behalf of the agriculturists and a large number of such men would be forthcoming?—In a group of villages there may be such persons available. They will get profit from the business.

Chairman : Do you think there will be profit?—Yes.

What inducement would they have to prevent them from lending money very freely or giving such easy credit that their clients would fall into very great debt ultimately?—They would certainly understand that they are responsible for repayment of the debt to the financing authority for which they have furnished security in landed property as stated above and they would see that their clients do not fall into

very great debts and become bankrupt which would ruin all of them. This idea would prevent them from lending money very freely. They should also be warned in this matter by the supervising agency.

R. S. Loknath Misra : Do you think of giving these banks special facilities for realising money?—Yes.

Chairman : When you say that realisation should be by some summary procedure, what form of procedure are you thinking of?—Those who are not willing to pay will have their crops distrained.

R. S. Loknath Misra : By whom?—The village bankers must approach the revenue officer and the local Kanungo can distrain the crops.

Chairman : Would it not be necessary to enact that the debtor must definitely agree that his property should be distrained for this particular form of debt?—Yes.

Would it not be better for the debtor to know that his crop is going to be distrained?—Yes. In about 4 per cent. of the cases the matter may become serious but in the remaining cases the debtors will gladly repay the loans with interest without their crops being distrained.

Do you think that most *raiya*s would agree to accept some form of summary procedure for realisation in return for getting their loans at considerably lower rates than they would have to pay to the village *mahajan*?—I think they will agree.

Mr. Hodge : Have you found that there is desire anywhere for a village bank of this kind?—Yes. They heartily welcome it.

Is it your idea that Government should take the necessary steps to organise these banks?—Yes.

Would Government also be the financing agency?—So much the better. I think such banks should be organised and worked under the supervision of Government.

Do you think that when these banks are organised they would compete with the co-operative societies?—Yes.

Do you mean that the co-operative societies should reduce the rate of interest?—Yes.

Is it your view that these banks could not be organised through the Co-operative Department?—That may be experimented upon.

Chairman : Do you think there are definite defects in the co-operative societies?—Yes. Some members borrow from the society at 12 or 15 per cent. and lend to non-members at 25 per cent. Such instances are very few.

Mr. Hodge : Have such cases come under your own direct observation?—I have not seen the transaction in my presence. This is what is my information I got in course of my tours.

Professor Batheja : Do not central banks in sanctioning these loans take care to see that the money is not utilised for such purposes?—I do not think they would be able to keep sufficient check over it.

Mr. Hodge : Do you know that a member of the co-operative society doing that is liable to be expelled from the society?—I cannot say further.

For the village bank would not the land be a good security?—Yes.

Professor Batheja : Why do not those persons who borrow from the members of the co-operative societies borrow direct from the society?—Probably those members who are already in the village society do not allow others to join them.

Chairman : Your experience of the co-operative movement here is that it is mainly composed of fairly substantial people?—Yes.

Why should not smaller people form a society of their own?—They have not applied for it.

Or perhaps there is no leading spirit to induce them?—That may be the case.

Perhaps the class of comfortable agriculturists, from whom you propose to draw the management of these village banks, roughly corresponds to the existing members of the co-operative societies where they have been formed?—Yes.

Would they be more likely to behave in a charitable spirit to the rest of the village?—Not all of them are members. They require our constant supervision.

Professor Batheja : You think the supervision of Government would be more effective than the supervision of the co-operative central banks?—I think Government supervision will be more effective.

Chairman : One of the restrictions on the business of these people would be to make them maintain accounts in the same way that landlords are made to keep their accounts and the controlling authority would be the Government acting through the Subdivisional Officer. Is that your idea?—Yes.

Is it your experience of Settlement in Gaya and as Subdivisional Officer in Cuttack that the Subdivisional Officer is very effective in compelling the landlord to keep his accounts and to give proper receipts?—Yes.

Mr. Hodge : Would you include the purchase of bullocks in agricultural expense?—Yes.

Chairman : You have already advocated grain *golas*. Would they have to have elaborate buildings?—No.

What kind of building are you contemplating?—They have got their paddy granaries made of earth, bamboos and wooden posts and beams.

Would that be adequate for the climate of Orissa?—Yes, to start with.

Professor Batheja : Is there any risk of fire in these granaries?—These should be constructed on high dry ground outside the *basti*. Later on they can cover them with corrugated iron sheets.

Chairman: You think there is great scope for the extension of rice-milling in the Cuttack district?—Yes.

Have you any idea as to how many more rice mills might be set up in the next 10 years?—Three or four more.

Would that be a fairly safe estimate for Puri and Balasore?—Yes.

Is there any likelihood of development in the matter of oil mills in the Cuttack district?—I do not think so.

Is there a great deal of oil seed grown?—No.

Professor Batheja: Is there any room for a paper mill here?—I cannot say that.

What do you mean by foreigners?—I mean people living outside Orissa, i.e., the Bengalis and the Biharis who have taken most of the *raiyats'* land, zamindaris, in Puri, Khurda, Banki, Cuttack and Balasore.

Mr. Hodge: You say that there are many instances in which efficient farmers have turned into tenants-at-will for a period by the lands passing into the hands of the creditors. Do you know of many instances where this has happened?—Yes. In many cases the tenants on account of their debts to the *mahajans* have sold their lands and have been totally ousted from the same.

Are you thinking only of Orissa?—I have seen this in Gaya also.

You say it would be true of Gaya also?—I am certain of Orissa.

Chairman: Is it the result of your long experience of agricultural conditions that cultivation by small holders produces a bigger crop than cultivation by hired labour in a large holding belonging to a *mahajan*?—Yes.

Do you think there is any prospect of considerable increase in market-gardening in the Cuttack district?—Yes.

Has any attempt been made to improve market-gardening?—The Agricultural Department will reply to this.

Would you require any large amount of capital for the supply of irrigation?—Yes.

Professor Batheja: Are any vegetables exported to Calcutta from Orissa?—Yes.

Do you think the Agricultural Department has made special efforts to popularise vegetable gardening?—The people have taken to potato cultivation on a large scale through the help of the Agricultural Department.

Do these jute-made durries find a market?—Yes in Kendrapara.

What sort of people buy these durries?—The rich and middle classes.

Have these not been put in the market?—I have seen these in some places in the Sadr subdivision.

Do these durri manufacturers require any finance for extending this business?—Yes.

Chairman : Is any particular grade of jute used?—The same class of jute which is exported.

Mr. Hodge : You suggest that widows in certain quarters have again taken to spinning. Would you regard that as a real benefit?—Yes.

So that *charka* has led to more spinning among widows. Then you say that the *charka* has not been accepted by the masses as a subsidiary industry. What is your explanation?—*Charka* is not in use in large numbers in the rural areas.

Is it because they find that it is not a paying proposition?—I cannot at present say definitely about that.

Chairman : You say that the net return of the village *mahajan* is roughly 25 per cent.?—I would say that it would be 60 to 75 per cent. or in some cases cent. per cent.

Perhaps you are thinking that he realises 75 per cent. in addition to the original loan in three or four years when the debt is finally liquidated?—Yes.

Then your present figure of 75 per cent. is not for annual income on capital. It is a figure for the income for three or four years?—Yes.

Can you give us any estimate of what the village *mahajan* makes *per annum* on his capital?—25 per cent.

A good deal of his transactions are in paddy loans?—Yes.

In those cases he simply takes 25 per cent. at the end of seven months and he does not lend out the paddy for the rest of the year?—Yes. He does not lend out paddy for the rest of the year.

That is to say in the case of paddy loans the maximum gross income cannot be more than 25 per cent. in a year?—Yes.

In cash loans, would it be more?—No.

Then surely he has some losses for bad debts, has some expenses for litigation and has got some expenses for peons to collect his dues?—Yes.

Surely that should be taken from his gross income and thus bring his net return down to below 25 per cent.?—The village *mahajans* do not entertain peons. Litigation expenses would be 2 or 3 per cent.

So that would you think that the difference between the gross return and net return is not very great?—Yes.

Do you think that the Oriya peasant women spend a good deal on gold or silver ornaments?—Yes.

Is it your experience that the people in Gaya do the same or is that peculiar to Orissa?—That is peculiar to Orissa.

Has there been a proposal to start a grain *gola* in Banka?—There is a grain *gola* there.

Mr. N. K. MUKHERJEE, M.A., B.L., Common Manager, Kothdesh Estate, and Chairman, Nimapara Central Co-operative Union.

Replies to some of the subjects treated in the Questionnaire.

EXPENSES DURING CULTIVATION.

Generally the cultivators borrow money from local *mahajans* either known to themselves or on recommendation of friends who might have borrowed any amount from such *mahajan*.

CAPITAL AND PERMANENT IMPROVEMENT.

The cultivators in the area rarely borrow any money for such permanent improvement, namely, digging of wells in fields for purposes of irrigation, planting of trees for orchards. It may be noted here that the disadvantages to a systematic irrigation are that the rivers get dried up in summer, that a large area is subject to annual inundation, the land surface, in some of the cultivated tracts, are either high or very low, to this may be added the indolence and apathy of the people to adopt effective timely measures.

OTHER SPECIAL NEEDS.

In case of special need as payment of rent, interest, purchase of bullocks, the cultivators recourse to borrowing.

RATES OF INTEREST.

The rate of interest varies from 4 to 6 annas per rupee per annum. The period is never below one year. The security given is cultivated land and in case of loans below Rs. 20 or so, the borrower gets it either from a substantial *chasa* or a money-lender residing in the neighbourhood, on personal security or on hand-note. The condition of repayment is by sale of properties mortgaged for failure of payment within the stipulated period. Standing crops are rarely mortgaged except when execution of decree is brought or about to be brought. The needy agriculturists are helped by the Government with *takari* loan; during distress active measures are adopted by Government for relief as well as in cases of flood affecting cultivation. Agriculturists in this area hardly call for or require any loan from existing outside Joint Stock Banks and Imperial Bank. Since the co-operative movement in this area the agriculturists have been receiving considerable help for grant of loans to the societies.

The principal crops in this area are paddy, *mung*, *kolatha*, *biri*, sugarcane, tobacco, betel leaves and dried cocoanuts. Generally outside merchants secure quantities of the produce by previous advances to cultivators and get them to their respective places after they become

ready for delivery. Most of these products are taken to Puri for sale and some to Cuttack and the rest to near local centres. Generally the cultivators stock up their paddy in their respective *amars* (granary). There are a few pucca granaries. There are very few store-houses for reception of such produce, except near the railway stations at Sakhigopal and Khurda Road. No attempt has yet been made for such store-houses in village centres or centres of groups of villages but with the aid of the present co-operative societies, construction of such store-houses may be attempted if local sympathy is secured. At present there are no facilities for financing the product except by sale in the nearest *hats* (fair) where purchasers get the opportunity of knowing the nature and quantity of articles gathered ready for sale. On account of *katcha* roads and distance of the railway stations from mufassal centres outside traders do not get the facility of knowing the nature and quantity of produce that may sell at a profit after payment of transit charges. It may be for this reason, amongst others, that different class of banks and bankers hardly play any part with the agriculturists here. There is no facility now existing for internal remittance except by post.

Negotiable instruments, bills of exchange and *hundis* and such operations are unknown in this area except it may be in some isolated cases in a rudimentary form. Except by mortgage of land no other means are employed for raising money during the process of marketing. In very rare cases ornaments and other moveables are pledged. The rate of interest stipulated in some of these documents is exorbitant and the borrower often finds himself unable to pay off the dues with the result that his lands are sold in execution of decree. It is hardly possible to render any assistance to the debtor at a very early stage of his incurring debt. Attempts are now being made by advance of loans from the co-operative societies. Where such loans are not possible the remedy, as far as known, lies in the relief which the court may grant on the basis of the provisions of the Usurious Loans Act.

So far as this area is concerned the starting of licensed warehouses in mufassal centres for storage of grains and other vegetable products not liable for speedy deterioration will be a matter for consideration of the co-operative bank. Government aid in this direction will be of great value.

The value of land for different kinds of crops varies. An approximate scale is given below :—

	Value per acre.	
	Rs.	Rs.
Cultivators own <i>raiyati</i> land ...	100	150
Do. <i>gharabari</i> (<i>homestead</i>) land ...	150	200
<i>Raiyati</i> land yielding <i>saradha</i> , <i>laghu</i> and <i>baradhan</i> (various kinds of paddy).	100	150
Land yielding <i>biali</i> (a kind of paddy) ...	100	
Ditto <i>mandia</i> (a kind of <i>rabi</i> crop) ...	75	
Ditto two kinds of crops (<i>dhan</i> and <i>rabi</i>).	100	

The value of these lands varies in view of the following circumstances :—

- (a) whether subject to inundation or not;
- (b) whether it is comparatively high and often subject to *marudi* (drought) for want of rain;
- (c) whether they have other advantages of irrigation;
- (d) its situation, whether near or distant from railway station, main roads, etc., besides local causes.

Generally it appears that there is reduction of value of land in auction sale for non-payment of revenue or rent. So also in court sale but in private case the value becomes more or less according to the quality of land, the pressing need of the seller and the purchaser's control over the transaction.

IMPEDIMENT TO MORTGAGE.

Difficulties are often felt in the speedy raising of loans by the agriculturists governed by the Mitakhsara law on account of legal restrictions to alienations of the joint family property, more so in case of sales and mortgages by widows or infants where the question of legal necessity is involved. In this area there are no land mortgage banks or agricultural bank. The co-operative bank, which has been started since the year 1924, gives loans to societies that finance the agriculturists. No private local banking concerns in the proper sense of the term have up to now been started and there is no immediate prospect of such banks coming into existence. No propaganda has yet been started in this direction. It may only be suggested that it may be done either by Government or by co-operative efforts when the enlightened and wealthy local residents in this area will appreciate its usefulness and by their sympathetic exertions give material help in this direction. The financing of the agriculturists will then become more easy in local centres either by mortgage of lands or on pledge of standing crops that have become ripe for harvesting.

LIMIT OF INDEBTEDNESS.

At present in this area the only arrangement for calculating the existing limit of indebtedness is of those who have become members of societies. A more complete and correct limit of indebtedness can be ascertained by special officers appointed and retained either by the Government or by the co-operative societies.

EFFICIENT FARMERS TURNING INTO TENANTS.

No definite opinion can be given as enquiry in this direction has not been made but when such a conversion is made over the circumstances noted in the question it may be said that in generality of cases the tenant so reduced exerts his best to produce more in an efficient and better manner.

INDUSTRIES SUPPLEMENTAL TO AGRICULTURE.

The only such industries in this area may be noted as follows :—

- (a) Weaving of wearing cloths, specially *sadhis*, napkins, etc.
- (b) *Gur*-making in a small scale.
- (c) Garden products that are ordinarily sold in the *hât* in local areas, namely *saroo*, *kakharoo*, brinjals, potatoes in small scale, plantains, cocoanuts, mustard seed, etc.

Attempts from the co-operative societies are being made to encourage such industries by production of large quantities of produce for sale in the local *hâts* and if possible at nearest towns at some higher profits; arrangements are in contemplation for giving instructions for better cultivation of such kind of produce by use of artificial and other kinds of manure. The only enterprize that has at present been adopted to give employment to supplement the income of the local agriculturists in addition to their ordinary duties of cultivation is eri-culture, preparation of thread and cotton.

To enlarge these industries the following suggestions may be noted :—

- (a) Financing the cultivators in proportion to the lands that may be available for growth of *gaba* (castor plants) trees; furnishing them with instructions in vernacular as to rearing up of insects (eri worms), preparation of thread of different calibre and weaving cloth of eri and cotton by supplying them with weaving machines intended for home industry; these machines may be supplied according to want in village centres. The work in this direction should be subject to supervision of the co-operative societies every month at short intervals, and arrangement will be made for sale of these articles at towns and other places.

II. INDIGENOUS BANKING.

There is no indigenous banking in the proper sense of the term within this area. In principal villages there are money-lenders who are known as *mahajans*; they do not deal with *hundis*, bills of exchange, etc., except promissory notes of the ordinary kind. These money-lenders, as far as known, do not receive deposits at interest. The rate of interest has already been mentioned before; besides money loan, paddy loans are given within the local area by either substantial farmers or by zamindars or mokadams; in the return as interest for this kind of loan the borrower has to pay one *pa* per *gouni* or 20 *gounies* per *varan* (one *varan* is equal to 80 *gounies*). No doubt a reduction of interest on money loan or on paddy loans would confer a great benefit to agricultural community and increase its resources, etc.

As far as known there is no hard and fast prejudice of the local agriculturists against indigenous bankers; very likely if such banking concerns are started under proper control and management the agricultural community may be relieved in some measure from the pressure

of high rate of interest. Bankers under such control would be greatly serviceable to the community. The introduction of measures for regulating their operations and for giving publicity for the same may at the initial stage meet with some opposition, but under proper management in the long run they will be found of great advantage; such indigenous banking concerns may gradually, in course of time, be connected with other similar concerns under Government or private management in towns; in course of time, in view of the successful operation of these indigenous banks, Agricultural Reserve Bank in consolidated local area may be started and gradually in view of the result of the operation of such banks, district bank and provincial bank may be extended. In the course of regulating measures for the introduction of indigenous banks, arrangements may be made after careful consideration for avoiding competition between such banks in the local area. So far as this area is concerned there are mokadams and other persons who have capitals in their hands, but the fact that they have as yet failed to make any deposit in co-operative banks without appreciation of its need the natural inferences seem to be that unless, apart from patriotic sentiment, they are made to understand that investments within the local area on proper security and at legitimate interest would be beneficial and advantageous not only to themselves but also to their local neighbours, there is hardly any prospect of such banking interest coming into existence either individually or in co-operation. It may be noted in this connection that outside money-lenders generally would find much greater difficulty in starting banking concerns in this area; this want of deposit has given rise to the necessity of securing money from Provincial Banks. I have not been able to find out as yet how this can be saved and how through the monied interest in the local area deposits may be secured in the co-operative bank or how indigenous banks may be started so that money belonging to the local area may serve useful purpose within the same.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

The circumstances stated above may be referred to in this connection. The idea of investment arises when there is savings after meeting all expenses; majority of the cultivators as far as known have only sufficient lands (yielding produce of *dhan*, *pal*, etc.), to enable them in normal years to meet the wants of maintaining the family, pay the rent, in cases of loan pay interest towards the same; after which there is hardly any surplus left which may be saved. Besides there has been increase of expense in ordinary living and there has gradually grown up necessity for additional expenses towards comfort, etc., which makes saving impossible; no doubt substantial cultivators may find savings, but these savings as far as known are generally used for purposes of lending and sometimes for investment for family ornaments, etc.

Saving in post offices by agriculturists are very rare. In this local area, as far as known, the agriculturists do not avail of postal cash certificates. Under circumstances noted above it is needless, so far as

this area is concerned, to deal in the subject of facilities of purchase and sale of Government and other securities.

Replies to the Additional Questions.

I. So far as the local agriculturists in this area that form the majority of this place are concerned, I believe that they do not find any special necessity to take part in the local or outside banking activity; the wealthy local residents no doubt may be greatly profited by the introduction of such banks but if the initiative in this direction is taken up by the Government, the due appreciation of the utility and advantage of such banks will be more readily felt.

II. As far as known no branches of joint stock banks, having head offices outside, are in this area. Under the present state of affairs it is not possible to foresee the result of introduction of such banks. I should like to refer this matter for opinion of the general body of the directors of the co-operative unions of this area.

III. (a) An experimental attempt may be made in this direction with a view to decide the future action that may be taken relating to starting of local banks in consolidated village centres. I believe that by Government aid the chances of success would be much greater.

(b) If it is found possible to start indigenous banks (without connecting banking system to post offices) after receiving substantial assurance of help from the local monied interest then with provisions for adequate control, banking functions may be made to cover *hundis* or negotiable instruments drawn by local merchants or money-lenders; there should be effective guarantee of sufficient landed property belonging to owners having undisputable titles; limitation as to time and money may be made to depend upon the circumstances of each case; transactions of any doubtful character should be eliminated and the whole concern must be under the effective Government control.

IV. There may be scope for such credit agencies as pawn shops, etc. It would no doubt facilitate and expedite loans, but such agencies, however subject to control, would have the effect of fast increase of indebtedness and reduction of ready resources of the agriculturists; under restricted conditions and limitation this may be made part of the indigenous banking concerns when started.

V. It is possible that some cases, where the money-lenders carry on some trade as well, they do mix up both the accounts of a client who might have borrowed money and taken goods on credit; such instances are rare now and the provisions of law are against it.

VI. Nil.

VII. It may be possible and no doubt desirable to introduce the system of granting license to persons carrying on or intending to carry on money-lending business with special facilities and privileges, limitation as to capital, providing for rules regarding keeping of accounts and of dealings with customers; these should be subject to the State control;

these operations may be extended to the agriculturists and to general local public.

VIII. Prevailing inclination of the agriculturists in local area is for purchase of land out of their savings, but on the matter of calculation of prospective value of return, the transaction between the purchaser and seller is generally carried on with so keen interest and with an eye to advantage to both sides that except in rare cases price of the land is forced up.

IX. Loans by mortgage of lands and by pledge of gold and silver ornaments are generally the only method by which retail traders and small contractors obtain their finance.

X. Very little is known in this area about the law and operations of the Usurious Loans Act. As far as known, money-lending transactions have not undergone any alteration since passing of that Act.

Oral Evidence.

Chairman: You are the manager of the Kothdesh estate and Chairman of the Nimapara Central Co-operative union?—Yes.

Is not your estate situated in the north-east corner of Puri?—Yes.

What is the area of the estate in square miles?—About 32 square miles having a consolidated area.

You mean that the estate is altogether in one place and not scattered about?—It is altogether in one place.

For how many years have you been the manager of that estate?—Since 1920.

You speak of the needy agriculturists being helped by Government with *takavi* loans. Have *takavi* loans been frequently given in your estate?—Yes, the Deputy Collectors do so.

Do you think that *takavi* loans are given whenever there is really serious need?—I would not be able to give you an idea when these loans are granted.

Mr. Hodge: But have you reason to believe that these loans are well and fairly distributed?—Yes.

R. S. Loknath Misra: Do you think the loans given as *takavi* are adequate?—I think so. I have not heard anything to the contrary.

Chairman: If such people did come to you would you take steps to inform the Collector of the district?—I think if the cases are sufficiently numerous it would be proper for me to do so, by requesting the Collector to grant these *takavi* loans.

Mr. Hodge: Is it your opinion that the needs of the cultivators in the estate are being met by the co-operative societies?—To a very large measure they are met by the co-operative societies. I might however say that the value of the co-operative movement has not really been understood by the people.

Chairman : Do you think that these co-operative societies have mainly been money-lending agencies and the other possibilities of the movement have not yet been developed?—That is so.

For how many years has the co-operative central bank been established in your place?—For the last four or five years the bank has been taking a great interest.

Mr. Hodge : Would you say that the *mahajan* no longer plays a necessary part in the State?—I believe they play an important part but their activities have been to a certain extent curtailed by the co-operative movement. I think the *mahajans* are influential agencies so far as the business of money-lending is concerned.

Chairman : You speak about the absence of communications between the railway stations and the mufassal centres which hampers outside traders from collecting produce for sale in their places. Is it your experience that there is a good deal of produce that could be sold?—My idea is that large quantities of paddy are being sent out to Puri.

How do they send it to Puri?—By bullock carts.

Do you think the *raiyat* in your estate does not get as good a price as he should for his produce owing to the lack of communications?—They are getting fairly good prices for their harvests but it would be more to their advantage if better facilities of communication are made.

Some people have told us that the *raiyat* is being exploited by the middlemen in the process of marketing of the former's produce. Do you think that the profits made by the middlemen are of such importance as the difficulties of communication?—I do not think the middlemen are exploiting to any great extent, but if marketing facilities are made by the establishment of local centres in convenient areas where produce could be brought then it will be better for the *raiyat*.

Are there any warehouses in Nimapara itself?—No.

Where is the nearest warehouse to Nimapara? Is it at Sakhigopal or Khurda Road?—There is no warehouse within a radius of about thirty miles from the estate. संगम नदी

Do you think there is a possibility of opening warehouses at Nimapara if road communications were improved?—I am not in a position to answer that question categorically. If an experiment is made by starting a granary in the near vicinity it will be better.

Is most of the money-lending apart from the co-operative banks' operations in your part of the country done in grain or in cash?—Grain loans are far more numerous than money loans.

Is there any possibility of opening a grain *gola* for stocking of grains which can be lent out to the *raiya*s in your place?—Yes. I think it would be a very desirable thing to do.

Would you have such grain *golas* controlled by co-operative societies or would you have them managed by the Subdivisional Officer?—It would be better if the Subdivisional Officer is the controlling authority.

Professor Batheja : Why are you against the idea of co-operative grain *golas*?—I prefer Government control for better management.

Will it not be enough if in the experimental stages Government controlled the same?—That would be enough.

Chairman : Would I be correct in saying that the great demand for borrowing would be some time about April to June every year?—Yes.

Will there be any difficulty about the Government officer getting out to supervise the lending of grain at that period?—I do not think there will be any difficulty. I think that could be done.

On the whole you think this work can very well be supervised by Government officers from Puri at the right time when there is demand for grain loan?—I fully believe that it can be done.

You say that there is difficulty in raising loans speedily by agriculturists on account of the Mitakshara law of Hindu inheritance. Could you explain more fully the difficulties you contemplate?—The *karta* of a Hindu family nowadays is not so well respected by the other members of the joint family as in former years. So if the *karta* wants to raise money for the benefit of the family all the members of the family who have joint interest will have to sign the mortgage deed before the bank could make any such loan.

Is the reduction in the prestige of the *karta* due to the general advance of education or due to certain legal decisions of any kind?—Legal decisions have of course something to do but I believe that the spread of education is the main reason for that.

Do you think that there will be any strong opposition to any legislation which would strengthen the position of the *karta* of a Hindu joint family?—I think there will be some opposition from the other members of the family.

At present I understand the law is that if a loan is contracted and if the creditor has finally to go to the court it is the creditor's duty to prove that there was necessity for the loan and that it was contracted for the benefit of the family. Supposing a land mortgage bank was started with responsible people as directors and partly controlled by Government and it was their business to examine carefully the reasons why the loan was taken, do you not think that in such a case it would be possible to lay the burden of proof, that it was not for joint family necessity that the loan was contracted, on the people who contested the suit?—I do not think there would possibly be any serious objection to such a proposal.

Mr. Hodge : Do you think there is room for land mortgage bank in your district?—I think so.

Chairman : The kind of land mortgage banks we are contemplating is not to cover the needs of the small agriculturists but for the benefit of small zamindars and bigger agriculturists. Do you think these latter class of people find it difficult to raise loans whenever they are in need?—

As I have already said the members of a Mitakshara family do find difficulty in raising loans.

Professor Batheja : Would there be a large number of zamindars and substantial tenants who will be prepared to take advantage of the facilities offered by the proposed land mortgage banks?—I should think so. Looking at the thing from the co-operative point of view I find that it is not only the poor agriculturists who take loans but also people generally called the *makadams* who have some proprietary interests in the land.

I believe *makadams* are people who possess a sub-proprietary interest in the land?—Yes. They pay their dues to the landlord and the latter pays the Government revenue, etc.

Are the financial needs of these *makadams* adequately met by the co-operative societies at present?—Yes, mostly.

Mr. Hodge : Do you not think it is difficult for the co-operative societies to advance long-term loans?—Yes, it is difficult.

And in the case of these *makadams* do you not think they would require long-term loans?—Yes, they mostly require long-term loans.

Professor Batheja : Therefore would you advocate the creation of a separate bank for the use of these *makadams*?—Yes, I would, but you can include in the scope of the bank the agriculturists as well.

How much money would be required for starting such a bank in your part of the district?—I would not venture with a large capital.

The object of the question was to find out how many of these *makadams* would take advantage of the land mortgage bank?—It is difficult to estimate the real condition of the *makadams*. If they find that they have a better financing agency they will come on.

Chairman : You will not be prepared to back up any proposal to start a land mortgage bank on any big scale?—No, I would not advocate the formation of a bank on a large scale to begin with.

Does the ordinary agriculturist, if he does not belong to the class of weavers, ever take up to weaving in his spare time at present?—No. Weaving is done by a special class of people. Agriculturists do not weave themselves.

So that any attempt made to encourage the ordinary agriculturist who is not at present a weaver to take up weaving in his spare time will be in competition with the existing weavers?—I agree that there will be competition.

Are the weavers in your estate in good financial position?—Certainly not, and that is the reason why I have suggested that Government should do something for them to improve their industry.

So you would advocate the improvement of the existing weavers rather than creating a new class of people who are inexperienced?—Yes, only the people who are weavers by heredity ought to be encouraged.

Can you tell us how many societies there are attached to the Nimapara central co-operative union?—About 100.

Is there any complaint generally that loans to the agriculturists through the societies take a long time to reach the applicants?—I have heard of no such complaint.

How long does an application take to go through from the beginning to the end?—About a month on the outside.

Mr. Hodge : That seems to be a pretty long time, is it not?—Yes, but we have to make thorough enquiries before we could make the advance.

Will you make any provision for emergency applications?—Emergency loans in our parts are only made for things like *sradh* and marriage expenses.

Chairman : But do not these people foresee that they will have to perform a marriage during a particular time?—I should think that in these parts marriages most often take place accidentally.

Are there any primary societies that are now allowed to borrow on cash credit basis in your co-operative banking union?—Not so far as I am aware.

Professor Batheja : What do you think are the limitations of the co-operative movement as an agency for financing the agriculturist?—They are of course financing agencies, but I would not advocate the suggestion of making them real banking concerns as their hands are already too full and any increase in the present business will possibly mean that there will be more chances of money being paid to people to whom funds could not be trusted.

Chairman : Has any case come to your notice of the members of co-operative societies borrowing money from the central bank and then lending it out to non-members of co-operative societies at higher rates of interest?—I have not heard of any such case.

What agency would you have to check such breaches of co-operative spirit?—Some additional supervisors may be employed to see that loans are not misused.

Is public opinion strong enough to stop that evil if it exists?—I do not think there is public feeling strong enough.

Mr. Hodge : Are you aware that each primary society has got a sub-committee which mainly exists to see that the loans are used for the very purpose for which it was granted?—Of course there is a sub-committee for that, but I know of several instances where loans taken for purchase of cattle for example are not spent in the purchase of cattle.

You would not trust that power to utilise the funds properly to the members of these societies themselves?—No.

Do you think that if the co-operative movement had the necessary staff they could undertake this larger banking business you have been referring to?—In my opinion banking business must be made a separate thing altogether from the co-operative movement.

Professor Batheja : You suggest some regulation should be made for the better working of the indigenous banking concerns. Have you

any suggestions to make?—I only suggest that a preliminary attempt may be made by starting one or two banks under Government management and with the help of the co-operative societies, if necessary.

How would you induce people to come and deposit money in such banks?—By infusing confidence in the minds of the cultivators and others with regard to the stability of the bank. As soon as the *makadams* find that Government has taken up this work themselves they will be willing to deposit their spare money in these banks.

R. S. Loknath Misra : Do you mean to say that these *makadams* have enough money to make deposits?—I do not say they have much money but those who can spare anything will deposit in these banks.

Chairman : No *makadam* has ever invested any savings in your central bank?—No.

From what sources do you derive the deposits for your central banks?—From other classes of people. Of course the deposits are not very large at all.

Is your working capital mainly made up of loans from the provincial banks?—Yes, in fact it is the only source.

Mr. Hodge : What rates of interest do you pay on the deposits received by the central bank?—We are paying at the rate of 7 per cent. per annum and $7\frac{1}{2}$ per cent. per annum on fixed deposits received from local men for 1 year and 3 years respectively.

Professor Batheja : Is there no demand for savings bank business in your bank?—I cannot say whether there is any. Evidently there is not and so it is that the bank has no savings bank accounts.

Why do you suggest the formation of indigeneous banks on a joint stock basis? Do you think co-operative societies are inadequate for meeting agricultural advances to cultivators?—If further facilities are created it will be better.

What further facilities do you suggest?—Creation of long-term loans, for example.

Are co-operative societies able to give enough finance to agriculturists?—If there is another bank people will have the choice of going to one or the other. It may be that the co-operative banks may not have always sufficient funds for making advances.

Which agency plays the most important part, the co-operative bank or the *mahajan*?—I should think that the co-operative banks are playing a more useful part in the matter of financing.

R. S. Loknath Misra : Have the *mahajans* reduced their rates of interest even lower than the rates of co-operative societies?—I do not think so.

Is there any tendency to do so?—There might be a tendency but the reduction has not been so prominent.

Professor Batheja : I notice you are in favour of granting licenses to *mahajans*?—Yes, mainly for the reason to bring them under proper control,

What sort of restrictions have you in view?—First of all as to the rate of interest, secondly all conditions of the transaction ought to be laid down in the bond and thirdly prevention of calculating compound interest.

Do you think legislation of that character will be effective?—I think so.

Do you not think it will be evaded by the *mahajans* by their demanding some money in advance not shown in the bonds?—Yes, it is possible.

Under the circumstances do you think it will be effective?—It may not be effective.

Then would you fix a maximum rate of interest?—I do not think it should be more than 8 to 12 per cent.

Chairman : Your society is demanding now 18 and odd per cent. interest?—Yes, but a limit should be placed that the rate may be up to the maximum fixed by co-operative societies and not more.

Do you think it would be advantageous if instead of leaving perfectly vague the definition of usury a definite rate of interest should be laid down, e.g., that anything above the co-operative banks' rate should be considered usurious?—I should think so.

R. S. Loknath Misra : Do you know to what extent the *mahajans* remit their interest at the time of closing the account amicably with their debtors?—I cannot say how much it is but they no doubt remit a portion of interest at settlement.



सत्यमेव जयते

Thursday, December 19, 1929.

CUTTACK.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Mr. HODGE.

Rai Bahadur BANSIDHAR DHANDHANIA.

Rai Bahadur RADHA KRISHNA JALAN.

Rai Sahib LOKNATH MISRA.

Mr. N. K. ROY, Deputy Registrar, Co-operative Societies.

GENERAL MEMORANDUM.

One of the most important matters regarding which the Banking Enquiry Committee has been asked to make recommendations is the extension of banking facilities to the agricultural classes. This memorandum is chiefly intended to show that the best, and in some way the easiest, method of extending banking facilities to the entire agricultural classes in the province is to take such measures as may be necessary to create a net-work of co-operative societies throughout the province within a measurable distance of time. This note will endeavour to indicate that the co-operative system, even as it is worked at present, is essentially a sound system and capable, if more funds are made available for that purpose, of vast improvement. Secondly, that it is of the utmost importance to effect such improvement in the system as it is capable of, and that without such improvement the purpose for which the Royal Commission on Agriculture and this Banking Enquiry Committee were appointed would be frustrated. Thirdly, that the co-operative system when properly organized is infinitely *better than* any other system of providing adequate banking facilities to the agricultural classes.

THE CO-OPERATIVE SYSTEM AS IT IS ACTUALLY WORKED.

It is necessary to describe the system as it is actually worked. At the base there is the primary society which serves as a village bank.

Working of primary societies.—The rules require that the membership of a society should be confined to a restricted area. Though there may be several societies in the same village, the same society is not allowed, save for exceptional reasons, to recruit its members from more than one village. This rule ensures intimate mutual knowledge among the members, not only in regard to their assets and liabilities but their

character. Anybody, who has good character, is eligible for membership and every member has to be elected by a $\frac{3}{4}$ th majority of votes. Once elected, he cannot be expelled except by a $\frac{3}{4}$ th majority of votes.

3. The actual management is vested in a committee of five *panches* who being elected by the free vote of the members may be expected to enjoy the confidence of all the members.

4. *Panches in meetings* have the power to contract loans from outside on behalf of the society and to sanction loans to any member of the society. But the power is restricted within limits fixed by the general meeting. In the annual general meeting the borrowing limit of the society *as well as of each individual member* is fixed.

5. But the supreme authority of the society is vested in the general meeting. These meetings are not formal affairs. In the annual meeting each year the *panches* are elected afresh, the work of the society reviewed in the light of the audit and inspection notes, the borrowing limits of each individual member and of the society as a whole fixed, delegates for the annual meeting of the central bank elected, and the action to be taken against wilful defaulters decided. In fact a general meeting is always called to exercise supervisory functions and to decide all important matters.

6. Every member is jointly and severally liable, up to his last stick, for the entire outside debt contracted by the society. This rule tends to ensure that only honest and industrious members are admitted into the society, that the borrowing limit of each member may be fixed with due care and circumspection, that loans may be sanctioned for only necessary purposes and unproductive loans curtailed as much as possible, and that repayments may be secured by the combined pressure of all the members.

7. The society has to maintain a *Haisyat* register, in which is recorded the assets and liabilities of each member. The original statement is prepared by the organizer of the society before registration, and thereafter each year, it is revised by the central bank staff. A copy of this register is maintained in the central bank office. Loan applications are, of course, dealt with in reference to this register.

8. All business must be transacted *publicly in open meetings* of *panches* at which any member may be present. At least once a month a meeting of the society is to be held on a fixed date in which cash balances are checked, deposits received, actual expenditure of loans checked with reference to the purpose for which they were granted, matters regarding improved agricultural practices and better water-supply, medical aid and methods regarding the prevention of epidemics of men and cattle, improvement of the village school and in short any matter of importance for the village is to be discussed in a practical way and a decision arrived at.

9. The society is inspected once in three months at least, and in many banks, a standard of one inspection per month has been reached. An inspection note is written in the prescribed register maintained by

the society and this is reproduced in the tour diaries submitted by the inspecting clerks to the board of directors.

10. The society is annually audited by the Registrar. The audit note is an exhaustive survey of the working of the society. A balance sheet and profit and loss account are drawn up and certified by the auditor. There is a system of classification by auditors as A, B, C, D, and E which respectively indicate that the society is model, good, average, bad and hopeless. This is considered in the Annual General Meeting. The defects and suggestions are discussed, the conduct of the members and pantries reviewed and suitable action taken.

11. The audit notes of the societies are submitted within three months of the audit by the central bank to the Assistant Registrar after rectification of defects. The Assistant Registrar goes through the notes of action taken on each defect and passes suitable orders for compliance by the central bank which supervises the work of the affiliated societies. Special reports are called for on D and E class societies in a prescribed form and special steps taken for their improvement.

Working of central co-operative banks.—All the primary societies are affiliated to the Central Co-operative Banks situated in the sub-divisional headquarters and the headquarters of each district. There are now three types of central banks. Most of them have two kinds of shares. Preference shares, open to any individual subscriber, and ordinary shares open to affiliated societies only. No preference shareholder may hold shares exceeding the value of Rs. 1,000. Preference shareholders have preference regarding dividends but are not entitled to any loans. The second type of central society is one in which there are no preference shareholders—all the members being affiliated societies. These central societies however have some ex-officio individual members or in some cases what is called "Special members" to supply the talent in the matter of management. The third and latest type of a central society also has no preference shareholders, but have "Guarantors" who from disinterested motives stand as guarantors against the bank's loss up to a minimum amount, usually Rs. 1,000 each. Half the directors of such banks have to be recruited from the guarantors and no resolution can be carried against the unanimous decision of the guarantor-directors. There are three such central societies at Khunti, Gumla and Dhanbad.

2. Overdue interest is excluded from profits available for dividend. The dividend is limited to $12\frac{1}{2}$ per cent. but usually it does not exceed 9 per cent. Auditors are required to make provision for bad debts before certifying balance sheets. 25 per cent. of the net profits are set apart for a reserve fund. Loans are not granted to any society in excess of ten times the shares subscribed. This ensures an automatic increase of owned capital of the banks. The permanent resources of the banks thus gradually increase, making it possible to undertake long-term loans to an increasing extent.

3. The central banks depend almost entirely on the provincial bank in the initial stages, but get more and more independent as they are able to attract local deposits. Most of them, however, rely on a cash credit

with the provincial apex bank for emergencies, and also contract loans on fixed terms. The central banks are not allowed to receive deposits from outside their area of operation. This rule supplies a fair index of the local confidence inspired by the bank.

4. Central co-operative banks are not allowed to make any loans to an individual. Their sole investment consists in loans to their own affiliated societies based on unlimited liability, who as members have a controlling voice in the policy of the banks.

5. The central banks submit a monthly return of their transactions and a quarterly financial statement of all the central banks in the province is published in the *Bihar and Orissa Gazette*. The audited balance sheets are also published in the Gazette each year.

6. The central banks are audited every six months by a staff of assistant auditors maintained by the Co-operative Federation and controlled by the Registrar. They are also inspected annually by the Assistant Registrars while the Registrar and the Deputy Registrar also inspect as many as they can. The audit notes are dealt with in turn by the Chief Auditor, Assistant Registrar and the Registrar or Deputy Registrar, and reports of action taken on each defect or suggestion obtained in a broad-sheet. The inspection notes of the Assistant Registrars are considered by the Registrar or Deputy Registrar and reports called for till all the outstanding matters are disposed of.

The Provincial Co-operative Bank.—The provincial co-operative bank serves as the apex bank of the province. It finances all the central banks and unions of the province and also primary societies in new areas where there are no central banks. It has four guaranteed shares of one lakh each, the uncalled liability of which enabled the provincial bank at its initial stage to raise funds for its business. It has a big cash credit with the Imperial Bank. It receives deposits of course, and has been able to attract enough deposits for its requirements.

From the above brief description of the system, it will be recognized that it is essentially sound. The system already holds the field as the only regulated system which offers banking facilities to the agriculturists on any extensive scale. In this province where the total number of villages is 84,814, the number of rural agricultural co-operative societies up to the end of 1928 was over 8,000 with a total membership of about 230,000. The total rural population of the province excluding the Feudatory States, is 32,627,424. If we take five as the average number of persons in a family, we have 6,525,485 families in the province. As one member represents one family, one family out of every 29 families is at present enjoying the benefits of a co-operative society. There is also one society for every ten villages in the province. Co-operative banking therefore is fairly extensive. Even if any other system of banking could be introduced with greater advantage to the interest of the borrowing clientele, it would be a long time before it could embrace a wider circle of persons desiring credit facilities. The cost of setting up another supplementary system, with the arrangements for supervision

and control, would perhaps be just as great as it would be to set up a machinery to extend and improve the co-operative system. But it is not merely a question of relative cost. The provision for better banking facilities for the agriculturists is of course not an end in itself. The question must be considered in its relationship to the larger question of increased agricultural production. The co-operative societies *when properly organized* provide the best system of banking for the agriculturists.

But the societies must be "properly organized", for in my opinion, there are defects in the existing constitution of societies which it is most important to remove before it can serve the purpose in view. The first defect is that the societies now cater to the needs of only a small fraction of the village population. This is one of the strongest arguments in favour of an alternative system. It is assumed that the reason why all do not join a co-operative society is the condition of unlimited liability which attaches itself to its membership. But this is only half the truth. It is true that a great many have not joined on this account. But it is not true that they would not join if effective steps are taken to get them in. The danger of joint liability does indeed *now* frighten away a great many possible members. But this is because they do not know its true implications and it has never been explained to them that the joint liability is only a part of a system which provides excellent safeguards against this so-called danger. Just as there is mutual liability, so also there is the opportunity of effective mutual control. Only honest and industrious members are eligible for admission into the society. The fact that members belong to the same village ensures intimate mutual knowledge. There is no uncertainty about any prospective member. Any undesirable person can be excluded from membership, and it is enough for this purpose if more than one-quarter of the members vote against his admission. The power to sanction loans is vested in the committee of management, the members of which are freely elected in the annual general meeting by the votes of the majority. Even this power to sanction loans is to be exercised within the borrowing limits fixed by the general meeting for each individual member. In the general meeting every member can exercise his discretion to fix safe borrowing limits for each individual member. For each loan, a borrower has to find two securities. If a loan cannot be recovered from a particular member, his sureties would, in the first instance, be called upon to make good, and on their failure, other members may be asked to pay. It will thus be seen that there are ample and easy safeguards against the danger, while the consciousness of risk itself provides the best possible safeguard. If the liability is understood, no member is likely to be allowed a loan in excess of his recoverable assets. The Co-operative Societies Act, moreover, provides very easy means of recovering dues from wilful defaulters. As a matter of fact, no member of a primary agricultural society, so far as I know, has yet been sold up for the debts of his fellow-members. When the liability is understood along with the excellent safeguards provided by the by-laws, there is no reason why anyone should regard this wholesome principle as an insuperable obstacle in the path of any honest *raiyat*

who desires a loan. As a matter of fact, it has now been established that a good organizer does not find this joint liability clause to be any formidable barrier to membership. There are at least 50 societies in Khunti subdivision in which men who have no immediate need for loans have been enlisted as members during the last three years. A good many of these societies embrace the entire village. Many members also have been induced to join for absolutely disinterested motives. In Dhanbad subdivision where a central society has recently been established 18 societies have been organized in all of which more than 90 per cent. of the households in the village have joined as members. Several societies have been started in Orissa during the last two and a half years on the same plan. All that is required for this better type of society is well-trained organizers who will know the technique of the work. This defect of small membership is entirely due to faulty organization and a narrow conception of the co-operative movement. It was thought that the only function of a co-operative society was to provide credit facilities. But even in this respect, the obvious defect that the societies organized served the needs, in this direction, of a small section of the villagers was allowed to go unremedied. Having got a society started, it was thought that all those who needed credit facilities would join by themselves. As a matter of fact, the *modus operandi* of the organizers has always been extremely defective and the presentation of the co-operative idea generally so halting that those who came in were mostly the most indebted class in the village and who had exhausted their credit with the local *mahajans*, and were thus compelled by circumstances to join under any condition. It was tacitly assumed that the condition of unlimited liability was so forbidding that no solvent *raiya* would like to join a society unless he was hard-pressed! In fact this idea is very prevalent even now among a great many co-operators. The result was that no attempt was made to enlist this class as members. These better class of cultivators, on the other hand, came to regard the society with some amount of contempt as a society of heavily-indebted people. The management of the society thus suffered for being deprived of the better talent available in the village and this reacted on the credit-worthiness of the society, and the scope of its credit function was thus restricted still further. There is another reason for the restricted membership of societies and this constitutes, in my opinion, even a worse defect in the present organization as a whole. This is the assumption that a co-operative society has the single function of providing credit. It must be obvious that if the idea on which the organization was based were true, the co-operative society was not likely to be a major factor in the economic improvement of the *raiya*s as a whole. As a factor in increased production, credit facilities are most valuable to those only who can make productive uses of money. Improved agricultural methods are not likely to be practised by those who are heavily indebted. It is the more solvent ones among the farmers, who could be persuaded to harness capital for better production. But the narrow objective of simply providing credit, has served to keep out a good many villagers who would have been glad to join for other co-operative activities of an advantageous kind with their fellow-villagers. In my opinion, a

radical reform is necessary to prevent the co-operative society thus stultifying itself. It is necessary that the objects of the society should be enlarged and that membership extended to the whole village. There is no reason why a co-operative society should not concern itself with the entire rural problem. The rural problem is never likely to be solved unless the co-operation of the villagers themselves is secured. There was nothing in the Co-operative Societies Act which placed any co-operative activity on the part of the villagers for their own amelioration outside the scope of a society's function. There are a number of common needs in a village which can be met by co-operative methods. The point may be illustrated. The people in a village must, of necessity, be interested in improved agricultural practices including improvement of their cattle, prevention of epidemics, better health conditions, amicable settlement of disputes, and better education for their children. These needs are not less urgent or important than better credit facilities. These common problems can be solved to a great extent only on one condition, viz., that they are willing to co-operate with each other and come under same common laws to regulate the affairs of the village. If these rules and regulations are made by themselves, and based on democratic principles, no sensible person would consider them to be objectionable. It is not very difficult to make the villagers realize that their salvation lies in thus co-operatively managing all the affairs of the village. It can be imagined what a new force a society thus organized must mean to a village. It would be the only way of recreating a village community which will function as a social organization with the capacity of self-growth. In such a society, the social, economic and educational development of the people would only be a question of time. This view was put forward in a paper "Quo Vadis" read by me at the Congress of the Bihar and Orissa Co-operative Federation held at Siwan in 1925. As a result, the model by-laws of a primary society were revised according to the suggestion made in the paper. These are reproduced below to show the radical change effected in the objects of a society :—

The object of the co-operative society is to bring about the moral and economic welfare of the members by means of common counsel and joint efforts and with this end in view it shall do all or any of the following things :—

- (1) borrow funds at a reasonable rate of interest by offering the joint and several liability of the members as security in order to utilise such funds in loans to members;
- (2) encourage thrift and habit of saving by insisting on small monthly deposits and on frugality on all occasions of festivity and general prosperity;
- (3) to settle disputes between members by arbitration and to enforce the decision of such arbitrators on the disputants by fines, suspension and expulsion;
- (4) establish schools by raising subscriptions, donations, securing grants-in-aid or other ways where none exists; or improve

- existing ones by increasing the attendance of pupils and improving the quality of the teachers and the teaching;
- (5) improve village sanitation and the health of the members and their cattle by providing for better drinking water, arranging for medical aid, for the prevention of epidemics and existence on more healthful lines;
 - (6) create among the members a spirit of service, of mutual help and toleration among all castes and creeds by utilising all occasions when help and service are needed, by undertaking joint work for common village needs such as the excavation of a tank or a well for drinking water or the construction or improvement of village roads;
 - (7) effect agricultural improvements of all kinds by arranging for better seeds, manures and implements and by introducing more remunerative crops wherever possible; and
 - (8) organize village amusements by arranging for healthy sports, recital of stories and contemporary news by educated friends, magic lantern lectures and the like, and similar other objects of moral and material progress for the people.

In 1927 I read another paper on "Co-operative Organization and Propaganda" in which I pleaded that the development departments of Agriculture, Industries and Public Health should do all their propaganda in and through co-operative societies. Even as constituted at present it would be economical to carry out the propaganda on behalf of the development departments through this agency. But the idea would gain considerably in strength if the societies were organized on the whole village plan.

It is gratifying to note that all these suggestions have since received authoritative endorsement in the report of the Royal Commission on Agriculture. The following quotations are apposite:—

"The modern conception of the co-operative movement differs markedly from that commonly held at the close of the last century; the term 'agricultural organization' or, better still, 'rural reconstruction' expresses more accurately the nature of the activities included within the movement. It is now accepted that co-operative principles can be used in overcoming most of the obstacles to progress in rural communities. Wherever agriculture is the predominant industry, co-operation is coming to be regarded as the natural basis for economic, social and educational development, and India is no exception." (Vide page 459 of the Agricultural Commission Report).

"Where the problems of half a million villages are in question, it becomes at once evident that no official organization can possibly hope to reach every individual in those villages. To do this, the people must be organized to help themselves and their local organizations must be grouped into larger

unions, until a machinery has been built up to convey to every village whatever the different expert departments have to send it. It is by such a system and by such a system alone that the whole ground can be covered. Only through the medium of co-operative associations can the teaching of the expert be brought to multitudes who would never be reached individually." (Vide page 468 of the Report.)

"A whole village organized to carry out the advice of the expert is a fertile field for the propagandist. We should like to see the agricultural departments converted whole-heartedly to the view that the spread of a sound co-operative movement is the best guarantee of their own success. With the mass of the cultivators enlisted in the campaign for their own improvement, miracles can be achieved; without that, a minority only will benefit from the lectures of the experts. As this kind of organization increases, the effectiveness of the technical propaganda must increase and the influence of the technical expert must expand. It is for reasons such as these that where a choice has to be made, preference both of time and attention should always be given to a co-operatively organized body of cultivators over isolated individuals." (Vide page 469.)

'Financial considerations make it impossible to contemplate an extension of the staff paid from Government funds which would be sufficient to enable the whole ground in a province to be covered, unless that ground had been well prepared by co-operative effort.' (Vide page 469.)

I have taken pains to quote these passages from the report in order to show that the plan of rural development through co-operative societies is essentially sound. It has also been established that it is practicable, provided we have trained men to organize the societies.

It is necessary to show that societies organized on this plan are best calculated to bring about the economic improvement of the agricultural classes—the ultimate object which the provision of banking facilities is intended to serve from one side. Mere provision of banking facilities cannot achieve the ultimate object in view. Increased agricultural production can only be brought about by improved agricultural practices involving in many cases, a complete change in the cropping system in vogue. This in turn can only be brought about by propaganda, experiment and demonstration. Meetings of a co-operative society, in which all the intelligent and enterprising cultivators are enlisted as members, are the most fruitful field for such propaganda. It is also the place where the decision as regards the first experimental demonstration of an improved practice can be most speedily arrived at. Finally when the results of the experiment are discussed intelligently by all the members, the extension of the practice on a wide scale becomes all but certain. It is at this stage that the credit facilities assume practical importance. The cultivators

find that intensive cultivation of sugarcane or garden vegetables or a double cropping system or an irrigation bandh or a tube-well need money and that loans for such purposes leave a handsome margin of profit. The banking facilities provided by the society thus come in only after the mind has been prepared to undertake the experiment and its success has been demonstrated in the village. In the same way, in matters of public health, it is only after the villagers have been thoroughly educated up to the need of a good water-supply for drinking and the use of preventive measures, that any good scheme for health improvement is likely to be adopted. The facilities which exist for obtaining the credit necessary to carry out the scheme, comes in as a powerful accessory but is obviously not the most important factor needed for the reform. Again better provision for the education of the children, on which the future economic progress of the agricultural classes depends, will be undertaken and financed only when the people have been educated up to its needs and are willing to pay for the same. This education by propaganda can be given by the supervisors maintained by the central banks, provided they are specially trained for this purpose. The co-operative training institutions, which have recently been started as the result of a scheme submitted by me at the Bhagalpur Congress in 1927, are designed to train co-operative employees to fit them for their duties.

Such societies organized on the whole-village plan are calculated, in my opinion, to serve the banking facilities of the agricultural classes better than any other agency that can be conceived. When the whole village has been organized in the manner described, it is to be presumed that the "Community spirit" has been awakened to some extent. In such a community, the dangers of dishonesty are reduced to a minimum. The society has secured the best local talent available for management and as the entire village population have joined and exercise a voice in the management, the society must inspire local confidence. Such a society is the only place where potential depositors will place their savings. To be able to attract deposits and tap local resources, is of course, one of the principal functions of banking and it must be held that societies organized on the whole-village plan are likely to serve this purpose effectively. The other function of making judicious investment as loans is also likely to be served no less efficiently. It is true that there will be some restriction on the use of credit on account of the operation of joint liability. But this is rather to be welcomed when the improvident habits of the people are remembered. No one is likely, however, to be refused a loan required for any good purpose. On the other hand, the educative propaganda in regard to productive use of capital, will lead to many more really useful loans, than would be the case, if, for example, a branch of joint stock bank were established in some local centre. These considerations would appear to indicate that there can be no better system of providing banking facilities than to multiply well-organized co-operative societies. The system should also be preferred as the banking facilities are provided as part of the same

organization which not only educates the prospective borrowers up to the better use of capital and provides an effective check on unnecessary and excessive borrowing, but serves to bring about slowly but steadily an all-round development in the village by inculcating a spirit of self-help and the habit of co-operative enterprises.

There is another point which deserves to be considered in this connection. One of the chief disabilities from which the cultivator suffers is the fact that he has to sell his crops at a cheap price to the *beparis*, because he is out of touch with the market rates elsewhere. It is estimated that the cultivators lose at least 25 per cent. for want of better marketing facilities. Co-operative sale societies cannot be started successfully with only a small section of the cultivators, as such societies must deal in large bulk to succeed. Even if a capable organizer could organize such societies among a group of members scattered in different villages, the difficulty of supervision and control leads to dishonesty. But when the societies are organized for the whole village, it will be easy to secure the major portion of the crops for the sale society, and the committee of management would also be able to recruit the best men in the group and both by reason of better capacity and more honest dealing the chances of success would be much greater. It has been found by experience that better marketing of produce has always been an incentive for better production. The whole village society is therefore obviously the best type of co-operative society to be organized.

There are two other defects which should be removed in order that co-operative societies might become more serviceable than at present. Under existing conditions co-operative societies cannot give long-term loans required for redemption of large debts and for effecting land improvements. This point has been elaborately dealt with in a subsequent paragraph on land mortgage banks. I have tried to show that the same steps are necessary to enable any land mortgage bank to function, viz., Government guarantee would enable the Provincial Co-operative Bank to finance Central Co-operative banks for long terms. This defect is undoubtedly very important. It can be removed and it is very important that it should be removed at an early date. The other defect is of a minor kind and is also remediable. It is the delay in getting loans. It usually takes from a fortnight to six weeks for a member to get a loan. It is also the case that for small amounts required by any particular member, the panches do not care to take the trouble to walk to the bank's headquarters. The defect has engaged the Registrar's attention and steps are being taken to remove it by introducing the cheque system.

SUGGESTED SCHEME.

The question thus arises how to bring about these organizations in large enough numbers to have an appreciable effect on the main question of increased agricultural production. At present the organization of new societies is entirely left in the hands of a number of

honorary workers who receive travelling allowance from Government. Their work on the whole with a few exceptions both in quality and quantity leaves very much to be desired. It is very far from my intention to disparage the unselfish work of these honorary workers, many of whom have sacrificed a lot of time and energy for the cause. The want of any system for training them before appointment and the fact that most of them are recruited from the professional classes who have little time for a serious study of co-operative literature and much less time to do patient organization work in the villages account for the defective organization. But the facts must be faced. A society is generally hastily organized in one or two visits of a few hours. The sole inducement offered is cheap money which is often represented as *Sarkari* (Government) money which must be paid. Even as pure credit societies run on a co-operative basis, the real principles of co-operation are seldom realized by the members before they start the society. Often they are never realized till the society is liquidated! The fact that the money really belongs to them as having been secured on their joint responsibility, that it is *their* business to judiciously loan it out to each member strictly according to his requirement and capacity for repayment and that it is their duty to enforce punctual repayment according to the instalments fixed, these necessary principles are not brought home to them in an effective way. The consequence very often is bad management owing to inadequate mutual control and this serves to keep out a good many potential members who would otherwise have been willing to join. The societies soon become loan institutions. They are seldom able to attract local deposits. What is more the organization of even this imperfect type of societies is painfully slow. At the rate at which societies are being organized, it will take a century to provide even this imperfect type of a village-bank within the reach of every village. But if any serious attempt at rural development is ever to be made, it is impossible to keep the villagers deprived of reasonable banking facilities. The existence of the village money-lender with his exorbitant rates of interest and his dishonest methods of accounting is regarded by such authorities as Sir Daniel Hamilton as a blot on the administration. I consider that the matter is imperative and steps should be taken to establish these village-banks on a systematic basis so as to reach the mass of the agriculturists within a measurable distance of time. I shall attempt to indicate what is necessary to achieve this result. I am

The need for a service of
organizers.

convinced that the only way is to have a staff of wholetime and paid organizers who will have received a specialized course of training for a sufficiently long time. In the conference on Agricultural Co-operation held in Wembley in 1924, the remarkable admission was made that "the chief reason why farmers do not co-operate is generally missed". *It is simply they do not know how. They have to be taught the modus co-operandi.* Co-operative organization is a highly technical affair and no one, who has not intensively studied the rural problem and is well up with co-operative literature dealing with the

principles and practices of co-operation in all the advanced countries of the world, is fit to organize a co-operative society. We have now recently established two co-operative training institutions in Sabour and Cuttack, and necessary training can now be given in these institutions in a two years' course, one of which will be spent in practical work. I consider that the persons to be recruited for such training should be ordinarily graduates. The pay of the posts should be fixed at Rs. 100—10—250. Selected managers of co-operative banks may be promoted to such posts if they have given sufficient proof of their aptitude for such work. An estimate may be made of the strength of the organizing staff which would be adequate for the purpose. In our province, there are 255 police-stations with an average of 333 villages in each police-station. Taking 20 to 25 societies as the limit of good organization by one organizer during a year, it would take 14 to 17 years to have one well-organized co-operative society in each village, if one organizer is maintained for each thana. As it would take some years to have a sufficient number of trained organizers, it would take 20 to 25 years to complete the programme. Since all other progress in rural areas depends on these organizations, it is clear that nothing short of one organizer for every police-station can adequately meet the actual needs in this direction. This proposition may be further elucidated. Poverty, ignorance and disease sum up the situation in the countless villages of the province. The solution of this staggering problem has been receiving increasing attention of late on the part of Government. The Industrial Commission, the Royal Commission on Agriculture, and the Banking Enquiry Committee with a special emphasis on the needs of rural banking, are all evidence of Government's anxiety to do something which will be adequate to meet the crying needs of the rural masses. After fourteen years' intimate connection with village life, and deep and earnest study of the rural problem, I am convinced that the first step in any scheme of reform is to organize the villages for effective self-help and there is no better way than the principle underlying a co-operative society. In the conference at Wembley, to which reference has already been made Sir Daniel Hall, the leading British authority on agricultural science, chief technical adviser to the Ministry of Agriculture, declared that *it was essential from the Government point of view that the farmers should be co-operatively organized*. If that is true of other parts of the Empire, its truth is a hundred times more applicable in the case of Indian farmers. The same view has been prominently put forward by the Royal Commission on Agriculture in the quotations already cited. But there is a point of view which has not received as much attention as it deserves. It is this. The problem is not merely economic. It is moral and educational. *The outstanding fact of the situation is want of character*. This in turn is largely due to the want of organization and the lack of opportunity for community service. The decay of the old custom-based village institutions has been the principal cause of disintegration of social life and the growth of the individualistic and selfish temperament now so predominant.

The one thing most needed in the village is the recreation of the village community in a form more suited to modern requirements. The need in the villages for an association of people having common interests and common possessions, bound together by laws and regulations which would express these common interests and ideals and define the relation of the individual to the community, is precisely what a co-operative society appears to be designed. It will provide the meeting place where the opinions of the villagers can be taken, and the committee will serve as the executive officers to carry out what is decided on. It will have joint funds to finance useful undertakings. Wherever rural prosperity has been brought about, as in Ireland and Denmark, two countries which I have had the privilege to visit, it has been entirely due to such rural organizations. The change from a rural population such as we have at present in our country, loosely knit together by the vague ties of a common longitude and latitude, to a people closely knit together in an association forming a true social organization, must be a change from stagnation to life. That is the change which the organization of a co-operative society by a well-trained organizer might be expected to bring about. No kind of direct help which Government can give to the people can bring about better results than to endeavour to make self-help effective in this way, through organization. Let us consider some of its effects. It has been held in many responsible quarters that without a wide extension of primary education no progress is possible in rural areas. But no Finance Member of Government has yet foreseen the time when primary education even of the very imperfect type would become universal. It may be a century before the money will be found. But with the formation of a live village organization, the villagers might be educated by the staff of the central society up to the needs of education and its economic value, and schools may be started and supported by the whole village. Such schools may well be expected to be more efficient than an average school forced on an unwilling village. Consider again the question of public health. It is a notorious fact that for want of the most elementary rules of hygiene and sanitary methods, and the lack of medical aid, thousands of persons are yearly carried away by preventible epidemics and curable diseases. There is no adequate public health service reaching down to the villages. But through a well-organized co-operative society, useful knowledge regarding the prevention of epidemics, methods regarding the disinfection of wells and the use of simple remedies may be disseminated with great practical benefit to the villagers, ensuring better health conditions and even saving hundreds of lives. In the matter of agricultural improvements, I have endeavoured to show how increased agricultural production entirely depends on well-organized body of cultivators. The better marketing of the agricultural produce also entirely depends on groups of such well-organized societies, formed into an union for such purpose. The improvement of the breed of cattle, which depends on the maintenance of a common breeding bull and the elimination of the unfit bulls from the area, and on concerted measures for the better feeding of animals, is only possible in places

where farmers have been organized in the manner described. From a recital of the probable effects of creating whole village societies, it is clear that no other line of village reform is more urgent, or has a superior claim to the public funds than the creation of a service to

“ A Rural Service.”

organize these societies as fast as possible. In fact these organizers together with the staff employed by the Central Co-operative Banks may well form the nucleus of a “ rural service ” which we must have sooner or later if anything appreciable is to be attempted for the masses. A programme for completing a net-work of such societies in twenty years cannot be considered to be too ambitious and is clearly not beyond the necessities of the case in view of the imperative need of reform in the condition of village life. Even if the organizers do not succeed to enlist the whole village assuming the worst fears of the sceptics, the proposal will lose nothing as a means of steady and systematic work in regard to organization of co-operative societies which will thus provide the much-needed banking facilities to thousands who are now deprived of the same. It is a matter of common knowledge that the extension of co-operative societies has brought down the rate of interest charged by the money-lenders to a very appreciable extent. In many places the *mahajans* have actually brought their rate to the same level as that of co-operative societies. It will thus be seen that the circle of farmers who actually gain by the establishment of a co-operative society is very much wider than the actual number of members of the society. It is estimated that the persons beneficially affected in this respect is at least ten times the number of actual members. The mere extension of the system of co-operative banking even in its present state of efficiency may therefore be expected to make a very appreciable effect on the increased facilities of banking provided for the cultivating classes. But it must be clear that when whole-time organizers are appointed after a specialized course of training in rural economics and in effective methods of co-operative organization, the societies would work more efficiently. My own conviction based on three years' experience during which I have been trying to get whole-village societies organized, is that societies can easily be organized on this plan if organizers are specially trained for this work.

The cost may be roughly estimated. A salary of Rs. 100 has been suggested. It will cost approximately Rs. 50 per month to meet the travelling expenses for each organizer and Rs. 10 for a peon and Rs. 5 for contingencies. The cost of one such officer would be Rs. 165 per month or Rs. 1,990 per year, say Rs. 2,000. There are 255 police-stations in the province which gives a total expenditure of Rs. $2,000 \times 255$, i.e., Rs. 5,10,000 will be the initial recurring expense when the entire staff is appointed. The cost will double itself in 15 years' time. Five lakhs does indeed seem to be a very big figure. But it is a moderate cost for so far-reaching a reform in a province which has a population of 34,000,000. The land revenue of the province is Rs. 1,57,03,095. I cannot think that an expenditure of 5 lakhs for the purpose of laying the foundations as it were of rural prosperity and

contentment, as indicated in the note, is at all disproportionate to the requirements of the case. In any case, it must be obvious that no appreciable improvement in regard to rural prosperity can be effected without a substantial increase of public expenditure. If the scheme is generally approved but funds are not immediately available, I would suggest that the scheme may be given partial effect in as many selected subdivisions or thanas for which funds are available. The success of the scheme would depend very much in intensive work in a compact area. The result could then also be studied carefully in such places with more reliable conclusions.

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. There are three systems prevalent by which the agriculturist obtains finance in this part of the country and there is no difference in the systems so far as borrowing for the three purposes (a), (b), (c) of the question are concerned. In fact there is nothing like long-term credit in agriculture except where there are co-operative societies. When the credit required is small, the cultivator usually goes to his village money-lender, executes a document for the sum advanced, in which he promises to pay the amount within six months or a year at most from the date of execution, although the period thus stipulated actually runs almost always to the eve of the time for limitation fixed by law. In cases of bigger amounts or absence of credit in the borrower, a mortgage of the land or of some other immoveable property is always demanded and complied with. Sometimes for cultivation expenses, the borrower takes money without giving any security but on the stipulation that when the crop, e.g., potato, paddy, etc., ripens, he would sell the produce to his creditor at concession rates, i.e., at rates cheaper than the prevailing bazar rate, such as one *Gooni* or five seers of paddy in excess of the bazar rate per rupee or $2\frac{1}{2}$ seers of potato above bazar rates per rupee.

The rates of interest for cash loans usually vary between one pice and two pice per rupee per month, i.e., between $18\frac{3}{4}$ per cent. and $37\frac{1}{2}$ per cent. per annum except from co-operative societies which charge $12\frac{1}{2}$ to $15\frac{5}{8}$ per cent. In Chota Nagpur one anna in the rupee per month or 75 per cent. is still not an uncommon rate charged by *mahajans*. The rate of interest for grain loans vary between 25 per cent. and 50 per cent. Security and other conditions attaching to the grant of loans have been dealt with above except that the rural borrower is usually liable to render small *begari* services to the creditor. He is almost always at his beck and call.

The Imperial Bank of India, the Joint Stock Banks and the indigenous banks and bankers do not finance agriculture. Government grants small and insufficient loans specially during scarcity and natural calamities and usually for improvements such as sinking wells, excavating tanks, reclaiming *gairmazrui* (*anabadi*) land, etc. These loans, although welcomed at the time of granting, are very unpopular in the long run because of the rigour with which they are collected.

The co-operative societies, of course, have come to be regarded as their mainstay to a large class of borrowers. Merchants and dealers take no part in financing agriculture. The advances made by them recoverable in kind at preferential rates as above, can hardly be called financing.

The professional money-lenders are still dominating the field except where substituted by the co-operative societies.

My experience is that every adult cultivator would require about Rs. 100 annually on the average for purposes (a) and (c). Loans for purpose (b) are required very rarely and may be left out of account as these will be of slow growth and would require much educative propaganda. The total amount required may be calculated on the basis of population.

The defects in the *mahajani* system are, of course, the usurious rates of interest charged and the dishonest methods of their accounting. The reasons are obvious. There is no competition of any kind. They are monopolists in the business. The other reason is the ignorance and helplessness of the cultivators whom they victimise and the want of any system for controlling their activities. The only practicable remedy is the multiplication, as fast as possible, consistent with sound organization, of co-operative societies. This will have the effect both of lowering the rates charged by them and inducing more honest dealings with their clients.

There is at present no co-ordination between the credit agencies. It should be possible to have co-ordination between Government and co-operative banks in regard to credit allowed to cultivators, e.g., Government *takavi* loans may easily be distributed and collected through co-operative banks. As a matter of fact it is not at all desirable that *takavi* loans should be distributed in any village in which there is a co-operative society. As regards land improvement loans also, it is much better to give these through co-operative banks. Every year provision may be made in the budget for a certain amount in consultation with co-operative banks. Loans granted for land improvement works through co-operative societies are much more likely to be applied for the purpose for which they were taken than if the loans are made direct by the Collector to an individual *raiyat*. When such loans are granted through co-operative banks, the rate of interest charged by Government should be reduced to 4 per cent. to allow the central banks and societies each to keep a small margin to cover the cost of collection and remittances and enable the members to obtain the loans at $6\frac{1}{4}$ per cent., the rate at present charged by Government. The apparent loss of $2\frac{1}{4}$ per cent. to Government, is, I think, more than counterbalanced by the travelling allowances of officers at the time of the disbursement of the loans and for inspection of works and subsequent collection. But even if the rate of interest cannot be reduced, the cultivators would prefer to get loans in their own village at 9 per cent. to loans at district headquarters at $6\frac{1}{4}$ per cent.

I.

Question 2.—The main method of marketing principal crops is as follows :—

In each village, there is a class of small dealers who buy the produce of the village and take them to central places, where bigger dealers purchase the crops from the small ones and send them to towns. In towns, the big merchants or *arhatdars* purchase the crops and export them to other parts of India or to foreign countries. There is a very strong combination among these dealers, which it is very difficult to break, but the possibilities of forming co-operative pools are very great, if the only disadvantages, viz., (a) the ignorance of the tricks of the trade and (b) the existence of the monopoly, are removed.

A co-operative pool can be formed in the following manner :—

Each group of village societies should have a small warehouse in a convenient centre which should receive the grains from the cultivators and pay them 75 per cent. of its price on delivery and balance on adjustment after final sale. This warehouse should send the grains on to a big warehouse under the control of the central bank under which the village society works, and situated at railway station, and obtain 75 per cent. of the price of the produce on delivery and the balance on adjustment after final sale. The warehouse under the control of the central bank should grade the produce and send them to the best market available through a provincial centre or directly, as may be found most suitable. In the initial stages, the buildings required for the warehouses will have to be provided by Government as business cannot be expected to be very large from the start.

If the facilities for credit granted by the Provincial Co-operative Bank are supplemented by the Imperial Bank and the building grants are made available, formation of such a pool would not be very difficult.

Question 3.—The price of land per acre varies according to the quality of the land such as high or low, situation such as in flooded or protected tracts, facility of irrigation, etc. The price ranges in Orissa from Rs. 50 per acre in flooded tracts to Rs. 800 in protected and irrigated areas in purchases by private negotiation. In cases of *a* and *b*, the value is reduced to about half the above. In Chota Nagpur the prices vary from Rs. 20 per acre for *tanr* or uplands to Rs. 400 per acre for first class terraced *don* or paddy lands.

Question 4.—Under the Chota Nagpur Tenancy Act, no mortgage of an agricultural holding is allowed for more than seven years, if made in favour of an individual. This period is extended to 15 years in the case of co-operative societies. No transfer of land is valid except when

the parties belong to the same village and are members of the same caste. In Sambalpur mortgages are not allowed.

There is no land mortgage bank in the province. Land mortgage banks can be started on the same lines as in Madras. I have endeavoured to show in my general note that so far as tenants are concerned, it is not desirable to establish such banks in this province.

But such banks may with great advantage be started for land-holders and tenure-holders. They should rely for their resources on long-term debentures. The interest will have to be guaranteed by Government. The banks would also receive fixed deposits of course. They should also have a cash credit with the Imperial Bank. Debentures must carry a Government guarantee of interest in order to inspire public confidence.

To secure Government against loss, it will be sufficient if Government nominate a minimum number of men on the board of directors and if provision is made for a half-yearly audit of accounts and valuation of assets.

Further suggestions for adequate security for long-term credit :— (1) Lands should be mortgageable without restriction to co-operative banks and societies, (2) dues of co-operative societies should be the second charge on the land, the first charge being the rent, and (3) the dues of the co-operative societies should be realisable by a summary procedure as laid down in the Public Demands Recovery Act.

Question 5.—To make out an accurate estimate of the existing indebtedness of the agriculturists is not possible. An approximate estimate can be arrived at by intensive investigation in some typical villages. As regards members of co-operative societies, a fairly correct estimate is possible, if figures are collected from the *Haisiyat* registers of primary societies through central co-operative banks. Figures are being collected. The rates of interest have already been stated above. There is nothing special in the method of calculating the interest except that in paddy loans, the interest is usually compounded. Enforcement of payment of debt is always through courts. Big money-lenders, however, employ *Dums* especially of low-caste, who have to be paid 4 annas per day by each debtor visited by the *Dum* in course of a day in addition to his usual wages. Sometimes these *Dums* give *dharna* at the doors of debtors, i.e., they do not leave the door of the debtor until the debt is paid in full or part.

Question 6.—Rice-milling factories are coming into existence in large numbers since after the war at convenient centres close to railways. In my area (Orissa and Chota Nagpur) there are about 20 such mills known to me.

There are hardly any dairy farms established by private enterprise. No cotton ginning mills or sugar refineries exist.

The area under sugarcane is growing each year. There is a bright future for the crop in these parts. Each sugarcane cultivator makes

his own *gur*. Garden produce is grown by cultivators near towns for sale in the towns only.

If the producer is to be enabled to get a better return for his produce, the only method is to establish these industries on a co-operative basis. The plan would be to start sale societies first and when a sufficient number has been started to feed a mill, to organize a co-operative mill. The profits would be divided in the shape of rebates or bonus to the sale societies in proportion to the quantity of grain supplied by each. The sale societies would in turn allow a rebate to the members on the quantity supplied by each.

Co-operative institutions are the best sources of finance for such employment and income to farmers :—

- (1) Rope-making from sabai grass, cocoanut fibre and jute fibre.
- (2) Lac cultivation.
- (3) Silkworm rearing and spinning.
- (4) Tobacco cultivation and manufacture.
- (5) Bee keeping.
- (6) Poultry farming.

Co-operative institutions are the best sources of finance for such enterprises.

Question 7.—The central co-operative banks have as a rule no direct relationship with the Imperial Bank. Some of the banks in Chota Nagpur and Orissa have a cash credit account of Rs. 5,000 to Rs. 10,000 with a local joint stock bank, e.g., the Chota Nagpur Banking Association, Ltd., or the Puri Bank, Ltd.

In regard to short-term loans, members of co-operative societies find the delays in obtaining the money rather irksome. These delays extend from one fortnight to three months, the average period taken between an application to the society and the actual disbursement, is about six weeks.

As regards long-term loans, most banks are not able to grant loans for long terms for redemption of large debts, or for any land improvement projects, as co-operative banks cannot get either long-term deposits or fixed loans for long terms from the provincial co-operative banks. But this defect can be remedied as explained in my note on land mortgage banks.

Taking an average of 4,000 villages in a district, the capital required for each district for financing the co-operative movement would be anything from 50 lakhs to one crore of rupees if societies cater for the needs of a section of the village population as societies constituted at present do. If the societies are constituted on the whole-village plan the capital required would be at least double the amount.

It may be noted that, in my opinion, there will be no difficulty in raising the capital in the country gradually as new societies are registered. The villages themselves, in my opinion, are a great

potential source of capital hitherto untapped on account of defects in the constitution of the society which have been explained in my general note.

There is no competition in Orissa and Chota Nagpur between co-operative banks and joint stock banks in regard to the borrowing clientele. Joint stock banks finance individuals mostly of the urban class whereas central co-operative banks exclusively finance registered societies consisting of agriculturists. In respect of depositors there is naturally some competition but the competition has not been felt by the co-operative banks as they have been able to raise all the money they need.

There are several ways in which Government may stimulate the growth of the co-operative movement. They are indicated below :—

(i) The most important way is to make money available either from the Imperial Bank or directly to central co-operative banks for long-term loans strictly for land improvement projects and redemption of old debts, at a specially reduced rate of interest. I would suggest that the rate to be charged to central banks should not exceed 3 per cent. The societies may receive the loan at $4\frac{1}{2}$ per cent. and the members at $6\frac{1}{4}$ per cent. It is necessary both for the central banks and the societies to keep a small margin for collection charges and other incidentals. These loans would be perfectly safe as they will be secured by mortgages. It is understood that the Imperial Bank has huge surpluses, a part of which could easily be invested in this way. It would certainly lead to increased agricultural production and further the trade of the country which would ultimately react favourably on the bank's business.

(ii) Government should, in my opinion, give an adequate subsidy to the Co-operative Federation for the two training institutions for co-operative workers established this year. The central banks and societies are contributing at the rate of nine pies per cent. on their working capital. This is expected to produce about Rs. 22,000. Government should give a subsidy at least equal to the contribution made by the societies. It is of the utmost importance for the growth and stability of the movement that not only the supervisors and managers of central banks who are actually to do the training of the members of village societies should receive a thorough grounding in rural economics and co-operative principles and practices but that the organizers who have to do the first spadework and the directors of the central banks who have to do the brain work of the movement should be able to keep in touch with an institution which will be able continually to inspire them with lofty ideals and a high standard of co-operative efficiency. The training institutions must therefore be manned by very good whole-time instructors who would be well-versed in co-operative literature and be able to do some first class thinking in matters co-operative.

(iii) Equally important, is the necessity for a regular staff of whole-time organizers to ensure a steady organization on sound lines. Good organization is more than half the battle. There is great need for a better type of societies to raise, by examples, the general levels of efficiency. These can only be brought into existence by paid organizers who would receive an adequate specialized training for their task and work under close supervision and proper control. Co-operative societies are the best possible agency for supplying the much-needed banking facilities to the agriculturists. The annual increase in the number of societies is at present much too slow due to the lack of adequate and systematic arrangement for their extension. Provided there is a whole-time organizer for every police-station, it is possible to have a good co-operative society in almost every village in the province within 15 to 20 years. Great as is the hiatus felt on account of the absence of these banking facilities, these societies are needed for even a more important purpose. That is to bring about a change in their whole outlook, and teach them the meaning of self-help and self-reliance. Good organization work by specially-trained men, coupled with a training institution which will serve as a distilling centre of experiences throughout the co-operative world and a bureau for disseminating information, to those who have to direct the work of supervision and training, is in my opinion, the only way to achieve this end. I cannot emphasize too strongly the importance of this method of stimulating the growth of the movement. I have dealt with this subject in the general memorandum.

(iv) Another important way to stimulate the growth of the co-operative movement is for Government to offer building grants for the warehouses of co-operative sale societies and a subsidy for the maintenance of a clerk for at least three years. As it is impossible to get from the start a large enough membership for this important type of society, to enable the society to have the necessary building for its business, or to pay heavy establishment charges, this form of help is essential for establishing this type of societies.

(v) A comparatively easy way of helping the growth of the movement is to open up more savings banks in sub-post offices in rural areas, and allow a concession in the rates charged for remittances through post offices between central co-operative banks and co-operative societies.

II.

1. The indigenous banker exists only in the form of rich individuals in towns, who advance money to known traders and merchants and also cash *hundis* issued by known traders and merchants.

2. The indigenous banker does not finance agriculture or industry. He only finances internal trade.

3 and 4. The largest sum employed by such a banker in these parts is about Rs. 50,000 and the annual volume of business may be 5 lakhs at most. The expenses of running the business per individual

is about Rs. 5,000. Such indigenous bankers usually keep their money as current deposits in the Imperial Bank of India or in a joint stock bank.

5. Money is advanced by such indigenous banker against goods received or despatched. These loans are always short-term loans, namely from one month to three months. They do not receive deposits. They trade with their private capital.

6. The indigenous banker does not advance money to the agricultural community.

7. There is no prejudice in my locality against the indigenous bankers, although the usual prejudice and hatred against the money-lender exists. They enjoy the usual protections granted to ordinary money-lenders by law.

8. The indigenous bankers want to remain as obscure as possible and out of the sight of the Income-tax Department. Hence any measures to bring them to prominence would not be a success and would be resented by them. They should not be given any special facilities in face of the opinion expressed above that such institutions require democratizing.

10. The indigenous bankers sometimes refuse to meet demands for the unacceptable nature of the security offered.

12. The indigenous banker always finds means to invest his capital. Large amounts do not lie idly with him.

III.

1. So far as the urban area is concerned, the postal savings banks provide a very good means for encouraging savings. But the rural areas have practically no such means or institutions open to them. Co-operative societies where they exist provide a good agency for encouraging savings. But they are much too few in number, and their constitution and working would need to be improved very much before they can serve as important institutions for attracting savings. The direction in which such improvement is needed has been indicated in the general memorandum. It has also been suggested how the number of such societies can be steadily increased. I am convinced that if such improvement is effected and the number of societies appreciably increased, co-operative societies will be powerful and effective means of attracting the savings of the agricultural classes.

2. No. There are very few sub-post offices in rural areas which do savings bank business. Those who are fairly educated now only resort to postal savings. Very little is known about the existence of such facilities in rural areas. With more propaganda, other classes of agriculturists can be attracted.

(5) The growth of banking and investment habit in India is very slow. This is mainly due to poverty and uneconomic social habits. The only way of encouraging it is by the formation of co-operative

societies. Money has become mobile as a result of the opening of 100 branches of the Imperial Bank of India in recent years.

Additional Questions.

No. 1.—In Orissa and Chota Nagpur the native born inhabitants are backward in education and poor and consequently also backward in banking activity.

No. 2.—Except a branch of the Imperial Bank at Cuttack, there is no branch of any outside joint stock bank in Orissa.

No. 3 (a).—Current accounts in bigger post offices would certainly be useful. I think Government should take up this work.

No. 6.—I do not see any possibility in the near future in the present state of education to pool information about their clients and bring together indigenous bankers, the greatest obstacle being the mentality of the bankers themselves.

No. 7.—In no case should a class of licensed or registered money-lenders be introduced. It would be impossible to control them and it would put a premium on extortion. On the other hand, everything should be done to replace the existing money-lenders by co-operative institution. I have dealt with this subject in my general memorandum.

No. 8.—The price of land is certainly being forced beyond the value of returns therefrom by the eagerness of the people to invest more and more in lands. But it is still the best form of investment open to a cultivator.

No. 9.—Small urban industries and small retail traders and contractors are financed like the agriculturist by money-lenders. Urban co-operative societies should be organized in towns or joint stock banks should grant them small cash credits.

No. 10.—The Usurious Loans Act (X of 1918) is made use of by Civil Courts when money suits are instituted before them. The reason why use is not made of it is the fact that the borrowers cannot afford to dispense with their services and the money-lender can easily circumvent its provision by dishonest practices, e.g., by getting the borrower to sign for Rs. 100 when only Rs. 75 is paid! There is practically no other restriction necessary.

LAND MORTGAGE BANKS.

No system of land mortgage banks designed to serve the agriculturists is in my opinion either desirable or necessary. The land mortgage banks obviously must operate from some central places—situated possibly one in each subdivisional headquarters or at best two or three in convenient centres in each subdivision. They cannot possibly be located in each village. It is very doubtful whether such banks would be able to attract local deposits as the likely depositors would have no means of knowing how their money is invested—much

less would they have the right to control the working of the banks. Considered as a means for providing facilities for agriculturists to deposit their savings, it is not likely to succeed any better than co-operative societies organised for the whole village in which the management is under the full control of the would-be depositors and where every investment made by the society is done with the full knowledge and consent of the majority of members. But land mortgage banks are regarded, in some quarters, as institutions calculated to provide better facilities than co-operative societies. It is thought that there are many persons who would never join a co-operative society but would be glad to take loans on their individual responsibility and make good use of such credit, but this view is based on an assumption not warranted by facts. From my experience of Chota Nagpur and Orissa villages, I do not think that there is any substantial number of persons who would contract loans for productive purposes merely because they are enabled to do so on their own responsibility. The number of persons who are enterprising enough to undertake land improvement project is strictly limited. Schemes for land improvements and other useful works which would increase the productivity of the land, can only be brought about through an organisation which would educate the minds of the agriculturists up to the economic value of such improvements. The land mortgage banks are not likely to take up these educational functions and even if they did so, direct inducements offered by them to any individual cultivator is not likely to prove very effective. If therefore land mortgage banks are intended to serve a considerable class of potential borrowers, who are now deprived of undertaking productive works of land improvement, the purpose is not likely to be achieved. The only class of agriculturists, who are likely to freely patronize the land mortgage banks are those who require loans for redemption of debts for longer terms than for which a co-operative bank can now lend. But here too, the remedy lies in my opinion, in making provisions for long-term loans to central co-operative banks rather than in setting up land mortgage banks which would in effect become rival institutions. The reason is this. It has been found by experience that redemption of old debts is an exceedingly difficult problem. In most cases it will be found that the debts are so large and the income of the land to be redeemed is so small that even the interest cannot be paid out of the income of the land to be redeemed. But whether the loan is economically sound or not, in my opinion, it will be found that actual redemption is only possible if the strictest punctuality is enforced in regard to the payment of the instalments and interest. It is here that the land mortgage banks are likely, in my opinion, to fail as a beneficial agency at least in this province. The land mortgage bank having fully secured the loan by means of a mortgage, is not likely to trouble itself much about punctual repayments of instalments. The directors of joint stock banks started with the intention of running a banking business on the ordinary principle of safety of investments and minimum overhead charges and maximum profits are not likely to engage a staff to go round to the borrowers to make demands for repayment. The

central co-operative banks finance individuals through the village society and supply a staff of supervisors who attend meetings of the members where the *panches* and members are continually instructed to enforce punctuality of payments. That makes a world of difference. Even with such timely pressure exercised mutually and through the outside supervision provided by the central co-operative bank staff, it is difficult to secure punctual repayments. In the case of the land mortgage banks, I am inclined to think that the instalments will seldom be paid and the debts will therefore seldom be redeemed. In most cases, it will increase as interest will be compounded and the land ultimately will be sold up. In the case of village *mahajans* or other creditors, who hold an usufructuary mortgage, the tenant does not lose the land, as the creditor allows him to cultivate the land and takes half the produce in lieu of interest. In the case of a co-operative bank which has to go into the question of the income of the land, very often the borrower is compelled to grow a more remunerative crop as a condition for redeeming the debt! Thus it will be seen that if the borrower's interest is to be considered, the best agency for credit facilities is the co-operative society. As a matter of fact, quite a large part of the business of a co-operative bank is debt redemption. In spite of the fact that deposits are taken for five years or less, co-operative banks are lending quite a large part of their funds for long term extending up to ten years. They are able to do this as deposits are found by experience, to be fairly stable. The business is however not quite sound. The defect can be cured and ought to be cured. My suggestion is that the Provincial Co-operative Bank should be allowed to issue long-term debentures on a Government guarantee of interest. Any investment in long-term loans done through co-operative banks would be far more safe than business done through a land mortgage bank constituted on the joint stock basis, as over and above the collateral security by means of the mortgage, there is in the case of the co-operative bank the joint liability of the members of the society. Government guarantee may therefore be safely granted. In fact any land mortgage bank would require some such guarantee from Government and there is no reason why the same privilege should not be accorded to the Provincial Co-operative Bank which has built up an established financial standing. If the suggestion is accepted, the only good argument for the establishment of land mortgage banks for agriculturists will disappear. It is thus clear that land mortgage banks are not at all necessary for the benefit of agriculturists. But this is not all. I consider that their introduction would be a dangerous innovation. The agriculturists are notoriously improvident. As soon as these banks are established, the agriculturists would flock to them for loans. Even if the banks decide to advance loans only for productive purposes, it would not prevent people using the loans for ceremonial and other unproductive purposes. The loans would be much in excess of their actual requirements. As these loans would be fully secured on the mortgage of their lands, it would be no part of the business of the bank to find out what other debts a particular borrower had

previously incurred. The village money-lender, who has also financed the borrower and who is on the spot, would recover his dues at the harvest time and in the absence of personal *takids*, the dues of the land mortgage banks will not be paid. The interest will be compounded and ultimately the land will be sold up. The last state of the man will be worse than the first. What is now considered to be a great disability, viz., the high rate of interest charged by the money-lender, and the restriction imposed on the borrowing propensity of a *raiyat* by a co-operative society, are blessings in disguise. They serve very often as the only safeguard against the man's undoing through improvident borrowing. Apart from this, the land mortgage banks will prove a most dangerous rival to the co-operative societies and might serve to destroy the organization set up through many years of patient constructive work. When people get easier conditions for loans, they are not likely to choose the more difficult ones. The result may well be imagined. As soon as loans are made available on individual responsibility they will at once decide to flee from the unlimited liability of a co-operative society which hangs over their head like the sword of Damocles. Resignation by members will quickly succeed each other and the societies will have to be dissolved. I am convinced that the only form of banking which is really beneficial for the agriculturists is a co-operative society. As regards mere convenience, the co-operative society will be hard to beat. The cultivator can obtain the money he requires in his own village. He has not to approach the society with any idea of begging a favour. As regards the safety of the borrowers, the mutual control among members prevent unnecessary and excessive borrowings, secures punctual repayments and the borrower is rescued from indebtedness. The constitution of the society being democratic, its affairs are under the control of the members who are served by it. This mutual control is calculated to inspire the confidence of local depositors and, provided the society is organized on the whole-village plan and the management is vested in the hands of those who, by reason of their character and capacity, enjoy the confidence of the villagers, the society is very likely to attract sufficient deposits from the village itself. This is the only condition under which the so-called hidden wealth of India will ever be brought to the fertilizing stream of credit. I am of opinion that societies organized on this enlarged plan will, in course of time, change their character, as in Germany, from an agency for financing agriculturists to an agency for collecting the savings of the agriculturists. It is held in some quarters that the whole-village plan will never succeed as there will be a good many who will never join. I have very good reasons, based on experience, for holding the view that given capable and trained organizers, it is possible to get almost all the desirable men into a society. The scarecrow of unlimited liability is not such a nightmare as it appears to the superficial observer. Any good organizer should be able to persuade a villager of average temperament that advantage of membership far outweigh the dangers of joint liability. As a matter of fact these dangers are apt to be much too exaggerated on account of its tendency to vagueness in the average

mind. When brought face to face with all its implications and seen in its right perspective as a principle to be enforced only as a part of a series of rules and procedure, it does not appear at all so frightful. This point has been discussed at length previously.

LAND MORTGAGE BANKS AMONG ZAMINDARS.

There is however a class of persons needing credit facilities for which land mortgage banks might be established with great advantage. I refer to the class of petty zamindars and tenure-holders. There are a great many of these at least in Chota Nagpur and Orissa who are likely to profit by the institution of these banks. Many of these men have incurred fairly heavy debts on high interest and their estate cannot be freed from these debts unless loans are made available for long periods on reasonable terms. It is also possible to establish land mortgage banks among groups of these zamindars on a co-operative basis. Such a bank might insist on the appointment of a common manager approved by it, as a condition of loans required by the members. A common management is likely to lessen the cost of establishment for each individual estate, while giving them the benefit of a skilled and experienced manager who would be able to improve each of the estates by judicious improvement schemes. The proprietor might also be required to agree to receive a moderate monthly allowance until the estate has been put on a more satisfactory basis. To bring such banks into existence, Special Officers would be necessary—and there appears to be no other way for Government to provide such officers.

LICENSED MONEY-LENDERS.

The idea of setting up a class of licensed money-lenders (as suggested in Question 7 of the additional questions) with special facilities and privileges and whose operations may be controlled by the State, does not appear to me to be practicable. One of the obvious conditions imposed would be the lowering of the rate of interest charged on loans. If the rate of interest is lowered, the money-lenders would have to be financed by the State. The amount of such credit allowed would have to depend on the security offered by the money-lenders and a machinery will have to be set up to check his accounts and to verify the rates of interest actually charged by reference to the borrowers concerned who may be scattered over a large number of villages. Besides, the extortionate exactions made by the money-lenders are not all in the form of interest. The money-lender takes many other 'perquisites' which are never accounted for. He often carries away a couple of fowls or a goat for failure to pay the instalment! It will be next to impossible to check these abuses as no cultivator who does business with a *mahajan* is likely to disclose anything against his *mahajan* for fear of losing his favour. In order to prevent abuses, the penalties will have to be fairly severe. It is doubtful whether the money-lender will like to bring himself under the eyes of Government

officials, and risk severe penalties. It is doubtful whether the facilities that can be offered to the money-lenders for honest business would be a sufficient *quid pro quo* for his dishonest exactions. In any case, on account of the difficulties of checking abuses, it will be extremely undesirable to risk a set of money-lenders carrying on their notorious practices as agents appointed by Government—for that is the position which they will assign to themselves to get a good business. But even if the abuses could be checked—which is a very big assumption,—one of the main objections against the *mahajan* is that he deliberately seeks to seize the land of the cultivator and when he allows him to retain the nominal ownership of the land, he makes him a virtual serf by perpetually making him cultivate the land for his benefit. I know of one instance where a cultivator was paying a *mahajan* 20 maunds of clean rice worth at least Rs. 50 for the past 20 years as interest for a loan of Rs. 39 incurred by his father!

Even if loans were made available at a lower rate of interest the money-lender will, by his tactics of advancing excessive amounts, secure his object of getting the land or its fruits. There seems to be, in my opinion, no object in setting up this class of registered money-lenders, when a co-operative society can give the *raiya* all the credit facilities he requires on reasonable conditions. If the number of co-operative societies is multiplied, the *raiya*s as a whole will benefit by a general reduction in the rate of interest and the abuses which he practices would also gradually tend to disappear. In my opinion the best way to improve the money-lenders' ways is to multiply well-managed co-operative societies.

SUMMARY OF IMPORTANT POINTS.

1. A co-operative society organized on the whole-village plan is the best type of banking institution that can be provided for the agriculturist classes.

(a) It will naturally inspire the confidence of the villagers as the institution would be backed not only by the material assets of all the villagers but by the best intellectual and moral resources of the village. It will thus provide the amplest security for the depositors' money.

(b) It is just the kind of institution needed to inspire and encourage enterprising farmers to adopt improved agricultural practices, take to more remunerative crops, and undertake land improvement schemes, e.g., irrigation bandhs, tube-wells, etc. This will increase the paying capacity of the borrowers and provide better security for the investments and make more savings possible.

(c) By making it possible for the provision of better health conditions, it will raise the economic conditions, of the agriculturists.

(d) By encouraging education and making it possible for the villagers to provide their own schools, it will help in removing one of the greatest obstacles to rural progress.

(e) The mutual liability of members impose a salutary restriction on unproductive and unnecessary borrowings and ensures punctuality of repayments. This is entirely for the good of the cultivating classes as they are notoriously improvident in their borrowing habits.

2. Long-term loans for debt redemption and land improvements can be made available to the cultivators if the Provincial Co-operative Bank is allowed to issue long-term debentures on a Government guarantee and give long-term loans to the central co-operative banks. It is not necessary to establish land mortgage banks for this purpose.

3. Direct loans to individual cultivators for long terms by a land mortgage bank would be dangerous to the borrower as such a bank is likely to be concerned only for the safety of the loan and would not concern itself with its proper application or its punctual repayments. Many cultivators are likely to be sold up.

4. Land mortgage banks for agriculturists will be a dangerous rival to co-operative societies. The easier conditions would attract the improvident cultivators and organization of what is considered the best form of banking for this class of people would become impossible.

5. Land mortgage banks can be started with great advantage for the zamindar class. When necessary, loans may be made subject to the zamindars appointing an efficient manager approved by the bank either singly or jointly with others. Banks in Denmark advance loans to co-operative creameries on such conditions.

6. Licensing money-lenders would be very dangerous innovation. It might bring discredit to Government on account of the impossibility of checking abuses. The abuses now practised by money-lenders are bound to disappear with the multiplication of co-operative societies.

7. The only way to ensure a steady organization of co-operative societies on sound lines is to create a service of whole-time and paid organizers the strength of which should be one man for each police-station area, as soon as funds will permit.

8. It is necessary for Government to subsidize adequately the two permanent training institutions for co-operative workers recently established, in order to make the training first class. The proposed organizers will receive their training in these institutions. Organizers and co-operative employees trained in these institutions will form the nucleus of a 'rural service' which must be brought into existence sooner or later if rural development is ever to be a reality.

9. Steps should be taken to make loans available either from the Imperial Bank or the Government, to co-operative banks, for long terms, for the redemption of debts and land improvement projects. The rate of interest charged to the co-operative banks should not exceed 3 per cent. and the rate charged to members should not exceed $6\frac{1}{4}$ per cent. The steps will make co-operative societies very much more useful and stimulate their extension.

Oral Evidence.

Chairman : Mr. Roy, you are Deputy Registrar of Co-operative Societies?—Yes.

How long have you held that post?—From 1927.

And previous to that you have had several years' experience as Assistant Registrar?—Yes, for about twelve years.

You have considerable experience of Chota Nagpur in co-operative matters and recently of Orissa?—Yes.

Have you much experience of Bihar?—For about four years I was Personal Assistant and then I toured throughout the whole Province. Since 1921 I have lost personal touch with Bihar.

You describe the third and latest type of a central society which has no preference shareholders but has guarantors. What is the particular object of this new form?—We found that very often in central banks we have preference shareholders with no stake in the bank taking only one share of Rs. 25, of which only Rs. 10 had been paid up and wielding considerable powers for good and evil in the bank. I conceived the idea that we might get another type of individual shareholders who would have a stake in the bank and who would be really interested in the movement. It is only by means of propaganda that we could get such men, and I was successful in getting the first banks started in Khunti, Gumla and Dhanbad.

So that the original central bank I understand has preference shareholders and society shareholders?—Yes.

Then there was the second kind what is called the banking union which has no preference shareholders but only society shareholders?—But all the unions allow special members from individuals.

Do they admit special members?—Yes.

Have they any voting powers?—Yes.

What is the qualification?—With the sanction of the Registrar one or two persons whose help is necessary to get over certain difficulties may be enlisted.

Mr. Hodge : About these guarantors is it a mistake that the minimum amount which the guarantors would have to take is Rs. 1,000?—It is a mistake. The Khunti and Dhanbad have Rs. 1,000 whereas Gumla has Rs. 500.

Is that the minimum?—There is no minimum. In the case of every bank a minimum is fixed. The Gumla bank has a minimum of Rs. 500, Khunti and Dhanbad have Rs. 1,000.

Professor Batheja : In this case in exchange for the responsibility which they undertake, the directors get powers?—Yes. But it would not be correct to say that they come for the power. The power is necessary to enable them to do some good for the bank.

Is there any other inducement besides this power?—So far as these banks are concerned there are many directors who are not even pleaders, so indirectly they cannot possibly get any advantage out of it. Some pleaders may think that the agriculturists come to the bank for loans and in that way it might help them to increase their practice. But in the case of non-pleader guarantors there is absolutely no way in which they can derive any advantage.

Suppose a non-pleader guarantor is a money-lender, do you not think that the fact of his being a director gives him much information which would be useful to him in his business?—It is rather a remote contingency. My object in stating that is that ordinarily these are disinterested directors.

Do you find this type of central bank popular?—It has been the creation of personal propaganda.

Mr. Hodge : Have these recently been started?—Yes. They are about four or five years old.

Chairman : Were the Khunti and Gumla banks founded on this basis?—Yes.

You say that central co-operative banks are not allowed to make any loans to an individual. Their sole investment consists in loans to their own affiliated societies?—Yes.

They do, as a matter of fact, deposit in other banks, don't they?—Yes, but rarely.

Then that is not quite an absolutely accurate statement. That is another form of investment?—It is very rare that they have a surplus. They practically invest all their funds in loans to societies, otherwise they lose.

However bad the investment may be considered, in practice it occurs?—It does occur rarely but they lose on it.

In the case of a central bank is its money out on loan for practically the whole year?—That is more or less the case.

The societies do not manage to repay fairly soon after the harvest?—They have fixed instalments which are generally after the harvest between March and May and that is the only time when they pay, at least in Chota Nagpur and Orissa.

When do they get their money for the next year?—Generally between March and August.

So that the repaying period overlaps the borrowing period?—Yes it does.

Do you think it will be any advantage to the central banks to have extra finance for a short period in the year?—So far as the agriculturists are concerned there is no advantage.

You admit, I take it, that a very great deal of agricultural debt is incurred annually?—It is repaid every year.

Is it borrowed somewhere in June and repaid somewhere about January and February?—Yes.

In effect the member of a co-operative society is taking money on loan during the whole year whereas a considerable part of it he only required for six or seven months?—He does not take money for the whole year. He pays interest for the period he actually borrows and he does not take it before he requires it.

He is paying interest on it?—The man who can repay before the fixed date does it and there is nothing to prevent him.

Is the primary society paying interest to central bank?—The primary society is paying interest on the amount it has borrowed.

You say that their borrowing period overlaps the repaying period?—But not in the case of individual borrowers. In fact the central bank gives the loan. The primary society is an intermediary. It has no money of its own.

But is it responsible for the interest?—Yes. It carries on its business on borrowed money from the central bank.

Mr. Hodge : The *kist* is fixed to meet the convenience of the borrower?—Yes.

So that after the harvest is the best time for the *kist* to be repaid?—Yes.

R. B. Jalan : In that case they will have to pay interest for the whole period?—No, for the period they borrow. The condition is that you pay according to the instalment but if at any time a member wants to pay the society must take it back and so must the central bank.

Chairman : Do you think that there is any possibility of making some improvement in that matter by passing the money more quickly from the individual member to the primary society and from the primary society to the central bank and thereby saving interest to the primary society?—There is no loss of interest now except on account of delays in repayment after collecting their own dues from the members. They keep the money for a month or so sometimes due to carelessness and for that period they lose interest.

Mr. Hodge : Is it not an instruction to the village society not to keep any balance in hand above, say Rs. 10?—Yes.

Chairman : You state that the danger of joint liability does indeed now frighten away a great many possible members. We asked the Registrar to collect figures as to the actual application of joint liability in the case of societies that have been brought into liquidation. Have these figures been collected in your area yet?—I have not been asked to prepare the statement.

Is it your experience that there has been any considerable amount collected in that way?—Probably there is hardly a member who has had to pay for a fellow member.

Then the fear of joint liability is in practice baseless?—Yes. It has no substantial ground but the fear exists.

Professor Batheja : You say somewhere that the fear of joint liability acts like the sword of Damocles hanging over the head of the members?—Yes, they are very afraid of it. If the people really understood what their obligations are they would not be so afraid.

Do you think the fears in the minds of the members of the co-operative society has a salutary effect?—It has.

Chairman : If the Registrar gives us the figures, do you think it would be advisable to have them widely published?—Yes.

Mr. Hodge : It is somewhat early to get these figures because as far as I know it takes a long time to liquidate a society and there are quite a number of societies under liquidation now.—Yes, that is the case at least in Chota Nagpur because the land cannot be sold and every year you have got to attach the crops only.

In fact the society is empowered under the Co-operative Societies Act to enforce demands but in practice it does not always do so. That is the reason?—Yes.

Mr. Hodge : Do you think that the introduction of collateral security is in any way responsible for the accumulation of arrears?—Yes, I think that may be the reason. They think that since there are men who are responsible for a particular debt so they need not as a whole bother their heads about the debt.

Do you think that is likely to destroy the sense of responsibility of the local *panches*?—Yes.

Chairman : The collateral security system, I suppose, is not enforced at all in Chota Nagpur?—It is.

They cannot get hold of the land?—The crops will be attachable.

Ordinarily speaking collateral security means pledging of certain land?—It prevents him from pledging the land to anybody else.

Professor Batheja : Does this system prevail in other provinces too?—I do not know. I consider it very unco-operative.

Chairman : Is it actually enforced in all cases in which the debt is above a certain amount regardless of whether the debt is incurred for short-term periods or for long-term periods?—It is now being enforced very rigidly, I am afraid.

Mr. Hodge : Do you think it is necessary in the case of long-term loan?—Yes.

Chairman : What is the limit for a long-term loan?—About ten years.

Professor Batheja : But do not short-term loans become long-term loans?—Yes, if they are not realised.

Are not the terms offered by the co-operative societies more rigid than those of the *mahajans*?—Not one-tenth as rigid.

But do you not suggest you are not availing of collateral security for long-term loans?—If short-term loans become long-term loans most of the loans of co-operative societies will have to be secured against collateral security?—When a loan is given originally for two or three years for the purchase of bullock, for example, no collateral security should be taken but if the loan is against redemption of debt the loan is obviously for long-term and should be secured.

Mr. Hodge : What would you call a long-term loan?—From seven to ten years and more.

Chairman : Do you agree that the central banks should very clearly distinguish between short-term and long-term loans?—Yes. The *kists* should be fixed very carefully according to the capacity of the man to repay but there is no need, as far as I see, to distinguish it in any other way.

Mr. Hodge : Do you think from your experience that it is possible to open short-term and long-term loans in the same society?—Yes.

Professor Batheja : Would you have long-term deposits provided for long-term loans?—That is one of the methods we are adopting now.

Is there any probability in the case of liquidated societies that this principle of liability may have to be applied?—The law allows it to be applied and probably in some cases it has had to be applied. Personally I do not know of any instance where a member has had to pay for a fellow member.

Could you tell us how the dues are realised in liquidated societies?—After amicable arrangements to realise the dues fail, the liquidator asks the Registrar to certify a requisition. He prepares the requisition that 'A' owes so much principal and interest and he adds liquidation costs and the total amount is signed for as requisition by the Registrar and that is handed over to the Certificate Officer and it is realised as a public demand. Notices are issued to the man to show cause. If there is no cause shown the land is sold. Where lands are not saleable attachment orders for crops come out.

R. S. Loknath Misra : Is action taken against all members jointly or against individual members?—The requisition shows the dues from individual members and until all the dues from the individual members are satisfied the liquidator cannot issue a fresh requisition. It has first to be exacted from the individual member and if there is a deficit, a requisition is issued on the other members in an equitable way.

Mr. Hodge : To what extent is this deficit apportioned to the other members?—So far as I know a fresh requisition has very seldom to be applied for.

Chairman : Is there any intermediary stage in which you proceed not against all members but against the sureties of the defaulting members?—Yes; before liquidation there is a process of awards. A society can apply against any member for an award and the Assistant Registrars have the power to grant the award. It is practically a decree of the court which can be enforced in the civil court.

Is not there sometimes in a society a system of sureties?—These sureties are also made joint debtors in the award.

But once the society goes into liquidation you have first to proceed against the individual member and then against the members as a whole on their joint unlimited liability?—We do not proceed against the members as a whole.

You say that the Co-operative Societies Act provides very easy means of recovering dues from wilful defaulters. In what case why are there such heavy arrears in the primary societies?—In most cases the reason is that the *panches* have not realised their responsibility in the matter. The central banks have been doing too much for them and they have got the idea that it is the central bank's business to realise the money. Where the *panches* have realised the responsibility there is no award necessary. They simply go and make a *rukid* at the proper time and realise the money.

Chairman : If you do not have separate registers for two different types of loan how would you be able to watch whether the long-term loans were in a reasonable proportion to the type of capital which should be employed for such purpose?—The man's assets, noticed in the *haisyat* register, is there and his income is also known to everybody and two separate loan accounts are maintained, one for short-term and the other for long-term in the same register. For other purposes we have a separate loan account.

I am looking at it from the central bank's point of view. It advances money against short-term loans and against long-term loans and surely it is necessary to watch the position at any rate at least once a year so as to see that the amount actually out from the primary societies on long-term loan is not wholly disproportionate to the capital which could be properly assigned to that form of business?—The central bank can keep an account in the same loan register. There may be two separate accounts, one running for three years and the other for ten years.

Professor Batheja : It would practically mean two registers?—Yes, it is a matter of detail.

Mr. Hodge : Do you not think there is likely to be a conflict of interest between the short-term borrower and the long-term borrower?—I think the conflict of interest does exist and the short-term borrower always gets preference.

But the short-term borrower has to accept liability for the long-term loan?—But he has also got the right to prevent the long-term loan being granted.

Would it not be better to organise another society for long-term borrowing?—No, I think that is not desirable at all.

You are likely to keep together men of the same economic status?—The economic status is the same because in a society we have got

members of more or less equal status. It is only the purpose for which loans are granted that makes the difference.

But one man may only need Rs. 50 and another man may want a thousand?—The man who wants one thousand would not get it probably.

Chairman : Then the principle of joint unlimited liability and the underlying principles of co-operation break down in the case that Mr. Hodge has just mentioned?—I think it is a question of education. Before a man takes to an improvement much education has to be done. The members have to be taught to see in the case of cash loan application what are his assets and if the loan is secure according to their judgment, they will probably not refuse it.

Professor Batheja : Suppose a long-term loan has been advanced for the purpose of debt redemption?—It is very easy to see that and to ask them to consider what is the income of the land to be redeemed. They know how many maunds of paddy it produces and what crops it is capable of producing and they can judge whether it is safe for them to give them the loan.

Do you not think the village cultivator is somewhat timid and he would argue that it would not be safe to advance money on long-term credit?—The borrower is himself timid and does not want to take big loans.

May not the timidity of the members of the ordinary co-operative society result in denying all long-term loans altogether?—Their timidity is a very good thing.

In that case the co-operative societies may not discharge their function?—They have to be educated up to their proper function.

Taking things as they are and taking the ordinary villager and ordinary member of the co-operative society, do you think he would under the principle of unlimited liability pledge his land for giving long-term loan to another man?—He is doing it now.

Is he doing it at the suggestion of the dominating member of the co-operative society?—My experience is that very few loans are granted without the man knowing what it is about.

Mr. Hodge : Do you not think it is asking too much from the village agriculturist to accept responsibility for the debt of his landlord?—Yes. But landlords are generally excluded from membership in Chota Nagpur and in Orissa.

Can he accept responsibility for a well-to-do agriculturist?—On the other hand the man who borrows a thousand rupees also brings in lots of assets to the society.

Chairman : You advocate very strongly that the whole village should join in the society?—Yes. The average number of households in a village is 75 to 100.

Do you think a society of 100 members can be run smoothly?—Yes.

Would it not have a more educative effect if you have four societies of 25 each having their own *panchayat*?—No. It would be difficult to get a good enough *panchayat* for each of the four societies.

Would it not be better to have say 12 people in the village running four societies than three people running one society?—I think the best men being in the one society, it would serve to educate the whole village much sooner.

Is it your experience that the personnel of the *panchayat* changes fairly rapidly?—Generally they are not inclined to change.

Mr. Hodge : Is it a fact that the smaller societies have more effective management?—Yes, they are generally better managed. As a matter of fact we have now no adequate arrangements for training the *panches* or the members.

Chairman : Are primary societies organised at present largely on a caste basis?—No, there are very few caste societies.

Is there any underlying basis for the organisation? It is not social. Is it by any chance economic?—It is always economic.

That is to say the people of one economic position form a society and if there are two societies in the village, one is for people of one economic level and another for people of another economic level?—In Chota Nagpur and Orissa I think the level may be said to be more or less one.

Is that really your experience in Orissa?—Yes. There is a social difference in the case of zamindars who look upon themselves as a class.

Is there no tendency to form a society of the people say holding 10 to 20 acres and another society of the people holdings less than 10 acres?—There is no such tendency. I confine my answer to Orissa and Chota Nagpur.

Professor Batheja : If the co-operative society is as big as the village, do you not think there would be less personal contact amongst the members of the society?—On the other hand, I think it will be the first time that real contact will be brought about.

R. S. Loknath Misra : Do you think such a big society will be managed properly?—In fact it will be managed by a few.

In that case also you advocate that the business of the society will be managed by a few selected persons?—That is always the case.

Chairman : Your ideal of democracy is that everybody should have a voice in electing its executive but once the executive is elected it should have very wide powers to carry on the business till the next election?—That is my idea.

Professor Bathcja : Do you think that certain influential members may get a disproportionate amount of money?—If the members would not fix the limit for the *panches*, of course, there is the danger. They have the right to fix a limit for the *panches*.

Is your scheme likely to bring in non-borrowing members to the society?—It has already brought in such members to a very great extent.

Chairman: Your scheme was first tried in Chota Nagpur?—Yes and it is now being tried in Orissa.

In what part of Orissa?—One society has been started in the Khurda subdivision. We have got societies in Kujang, in Kamarda in Balasore and we have just started two societies on the Taldanda road, viz., Gopalpur and Raghunathpur.

Then you could fairly claim that the experiment is being tried under various conditions?—Yes.

What number of members have you got in these societies?—30 to 50 families. We have selected smaller villages first.

R. B. Jalan: Can a loan be easily arranged for non-members through the society by charging a little more than the members?—I am afraid not. The fundamental principle underlying the Act is that loans can only be granted to members of the society.

Is it desirable to change the law?—I do not think so.

Mr. Hodge: But if your scheme operated that would not be required?—No. The only idea of disallowing a non-member to borrow is because he does not want to take responsibility for other's debts.

Chairman: What objection would you put forward to a change of the law, authorising lending to non-members at a higher rate of interest?—I am afraid it will have the tendency of encouraging members not to join the society.

Professor Batheja: Would there not be danger that most of the money would be lent to non-members who are willing to pay higher rates?—Yes that is a possible danger.

Mr. Hodge: Would not the higher rate of interest be a sufficient safeguard?—No.

Why should a man borrow at a higher rate of interest when by becoming a member he can borrow at a lower rate?—Because he does not take the other people's liability on his shoulders.

If he knew that this principle of unlimited liability was never actually followed in practice?—Then these difficulties will disappear.

In any case you must still leave to the members themselves to decide whether they would admit a man to membership or not?—Yes. Certainly.

That may make it altogether impossible to organise the whole village into a co-operative society?—When a man is known to be of bad character he would not be admitted but otherwise there seems to be no reason why he should not be admitted.

You suggest that short-term borrowers would refuse to admit a man to membership who wants a long-term loan?—I do not think they will refuse membership. They would hesitate to give him a big loan.

But in many of the larger villages at any rate there would be men who would only want a long-term loan?—My experience is that the application for debt redemption and land improvement is very limited.

Chairman : Is not there a very great deal of indebtedness of more or less permanent character?—Most of the indebtedness is really irredeemable. You cannot redeem the debt from the income of the land to be redeemed.

Professor Batheja : You think the co-operative societies will never be able to touch these people?—Yes. Nor would any other organisation.

R. B. Jalan : How do they get the loan?—If a man has got a loan which can be safely redeemed he always gets it. He applies to the society and gets the loan.

Chairman : Do you think there is a large amount of outstanding indebtedness which the land cannot bear?—That is so.

Professor Batheja : What will be the proportion of such indebtedness?—In the case of the Ranchi Central Bank I think the total loans granted by the bank was about Rs. 2 lakhs and the outside indebtedness of the members was about 3½ lakhs.

You do not think that indebtedness could possibly be shifted?—Not unless we are able to improve the actual cultivation of the land and make them grow more remunerative crops.

Chairman : You say that the cultivators lose at least 25 per cent. for want of better marketing facilities. By whom was that estimate made?—That is our own estimate and it is my personal experience.

Are not such figures available in the Co-operative Department?—No.

On what sort of basis did you begin to collect your figures?—For example, recently I went to a society and found that the selling rate at the harvest time in Angul for example was Rs. 10 to Rs. 11 per *bharan* and in August the price had risen to Rs. 16.

Do you not think that Angul is rather untypical for the rest of the Province?—It is.

So that your estimate is founded on Angul experience?—There the difference is 50 per cent. and I have put it at 25 per cent. Ordinarily there is a difference of 25 per cent. between the harvesting time rate and rates at the seeding time.

Then you think that the bulk of the loss is by reason of having to sell in say January instead of in August?—Yes.

Surely some of the crop has got to be sold in January in any case?—What I was thinking is that sale societies could advance them money against their crops and thus they pay only 4 or 5 months' interest and save a good deal in that way.

R. B. Jalan : What about supervision and overhead charges?—That would not be much for large number of persons. I admit that such business has got to be done in bulk.

Chairman : Do you think there is much loss by reason of the existing marketing agency, that is to say does the *bepari* and the trader really make an exorbitant profit for the services they render at present?—The *beparis* probably do not. The wholesale dealer makes most of the profit.

As a matter of fact the wholesale dealer does not get anything more than 10 per cent. of the crop?—I think you are right there. I mean the *beparis* really deal with such small quantities that the profit is very small and they take a lot of trouble.

Professor Batheja : Even in the case of sale societies you will have to allow certain profit?—Yes.

In view of this fact do you think the middleman is overpaid?—Whatever the profit it can be saved for the cultivator.

Co-operative sale societies will also have to incur the expenses of transportation?—Even then it saves the cultivator something.

Is there not very keen competition amongst the wholesale dealers?—There is.

And therefore, is there not the tendency for the wholesale dealer's profits to be cut to the bare minimum?—On ordinary transactions certainly it is but if you can hold up the crop the cultivator does gain a considerable amount.

Chairman : If you were successful in holding the bulk of the crop till say June and selling it from June to August would not the natural result be that the price between June and August would approximate to the price between January and June?—We could not possibly hold the bulk of the crop. The organisation of sale societies would be gradual, ultimately the profit will come to very little, when the number of societies become very large.

Is it worth while running grave risks of starting societies on a large scale in order to secure the profit for a few years only?—These organisations are of very slow growth, so by the time you really make an appreciable impression on the whole situation it would be about another 25 to 30 years.

Then you are very strongly in favour of sale societies for the big staple crops?—I am in favour of them for special crops like sugarcane, *gur*, etc.

Mr. Hodge : Would you say that there is no demand for co-operative sale societies for these staple crops?—There is no real demand; it will have to be created more or less.

Chairman : Is it your experience that the agriculturist is pretty well satisfied with his marketing facilities except in the matter of communications?—There are certain agriculturists who really operate under great hardship. For example in Delang in the Puri district I discovered that they take advances from the *beparis* to sell the crop at a particular rate. It is there that these cultivators lose a lot.

Is that a common practice?—I am afraid it is fairly common in Orissa but I cannot vouch for this.

R. B. Jalan : Have you any idea as to what profit these wholesale dealers are making?—I am under the impression that the percentage of profit in the case of special crops is very high. I may or may not be correct. I do not think the percentage is very high on staple crops.

Mr. Hodge : You say that you favour the sale societies for special crops. What crops have you in mind?—*Gur*, sugarcane, molasses and groundnut.

Chairman : What is the marketing system for *gur* in Orissa?—The *beparis* come to the villages and buy the stuff and bring it away.

Professor Batheja : Has there been any co-operative sale society which has been successful in this Province?—I am afraid I have no personal experience of any such society. There was one sale society for selling agricultural produce at Fatwa. It failed miserably. No serious attempt has been made to start sale societies.

Is it due to want of accommodation or difficulty of securing honest and capable workers?—Both. But even if the honesty is there it could not be started without a building.

Is there any difficulty about the supply of business capacity?—Business capacity can be acquired by experience because after all the trend of prices is known and can be ascertained very easily.

Can it be forecasted very easily?—Yes in the case of staple crops.

I am talking of the special crops which you have in mind?—No. We will have to rely very largely on the business experience of the man.

Would it be possible to secure such a man?—You have to pay to get a man of that kind.

Would there not be considerable overhead charges?—That depends on the scale of the business.

If it is conducted on a big scale, there is the possibility of big losses?—There are dangers certainly.

R. B. Jalan : Have you heard of any *gur* being imported from Java?—No.

Professor Batheja : In view of the fact that there is no business capacity and the honesty and building accommodation for running the co-operative sale societies which you suggest would it not be better for the Co-operative Department to find for them storage facilities only?—I think that is much safer.

Do you think the co-operative central banks could take on this function?—I think some banks could.

Can some societies also take it up?—Yes, here and there we can find some societies.

And gradually as they gather experience they might take the higher functions?—I think, on the whole, the idea of having special societies would be better because the central bank directors as a whole are probably not equally interested or capable but there are men in central banks who are interested.

Chairman : Would it be necessary to amend the Act in order to allow societies of this kind to be affiliated to the bank?—No.

The special societies would set up their stores through which they would sell on commission in recognised market places not necessarily headquarters towns but places where there is already an established market?—Yes and make advances against goods.

Professor Batheja : Do you think this sort of business would demand a high degree of business capacity?—No.

Chairman : You speak of one of the difficulties of co-operative societies is the delay in getting loans. Are you taking any steps to remedy that defect in the area under your charge?—We are trying to introduce the cheque system.

Is that the same as the cash credit system?—It is virtually the same.

Has that been tried in any of the Orissa and Chota Nagpur societies yet?—No.

Professor Batheja : Can your object also be attained by allowing central co-operative banks to open current accounts with post-offices and transmitting money quickly through the agency of post-offices?—The difficulty is we have not got enough post-offices in rural areas.

But they are more numerous than central banks?—We are now remitting money through post-offices.

Mr. Hodge : Would you say that this delay is due to lack of business methods in the central bank?—No. It is simply due to the practice of having the loan applications referred to the working committee and as the working committee do not meet more often than once a week or once a fortnight it has to wait till it has been considered by the working committee and then some time elapses before the society is informed that the loan has been sanctioned.

Is it not possible to carry through the whole business in a week?—It is possible if the central bank is really efficient.

R. S. Loknath Misra : Is the borrowing power of each society fixed by the central bank?—It is supposed to be fixed but in fact we do not find they do it.

Mr. Hodge : When you once fix the capacity of the borrowing society why do you investigate the applications?—I am very much opposed to any enquiry being made into a loan application. All the facts relevant to the application should be known to the central bank beforehand and as soon as a loan application comes and if it is within the limit of the borrowing fixed by the central bank it should be automatically granted.

They should simply act as a disbursing agency?—Yes. But the practice is now to investigate the loan of each individual member and interfere with the discretion of the *panches*.

Professor Batheja : Is it because the central bank does not trust the society?—That is the reason. They would say that member 'A' cannot get the loan which they have no right to say.

Chairman : You mean that there is a usurpation of power by the central bank?—Yes.

Professor Batheja : Do you think they base this on their experience of the working of the primary societies?—It is only because they begin with the idea that the societies cannot be trusted and the *panches* cannot be trusted. But I find wherever I have attended a meeting of a society that the *panches* consider the loan applications very sensibly.

Mr. Hodge : Is not the scrutiny of applications that come in, the only check that the central bank has in overfinancing?—The question of overfinancing has to be taken into consideration. I think they should fix the limit beforehand to avoid overfinancing.

Chairman : Is the limit fixed every year theoretically by the central bank?—No, my experience is that central banks do not fix the limit at all.

Mr. Hodge : But the limit is fixed for the whole of one year and it does not necessarily follow that the member should borrow every six months or so?—It does not follow.

Is there not a tendency to do so?—The limit fixed by the central bank can be increased later on but so long as that limit is not exceeded there is no reason why they should not submit their loan applications.

Professor Batheja : But is not investigation the only check for central banks against frauds?—At present it is the only check.

Are you aware that certain members of co-operative societies borrow money from the society and carry on money-lending business?—I am not aware of such a practice.

It has been reported to us that some of these Nagas who advance money in Ranchi borrow money from co-operative societies in Chapra?—It is possible. I cannot vouch for the correctness or otherwise of that statement.

What check will the central bank have in such cases of abuse?—They can expel the member who abuses his privileges.

Supposing the whole society is doing that?—Then that would be a very fit case to dissolve such a society.

Mr. Hodge : The Registrar has ample power to deal with a case like that?—Yes.

Even admitting that the central bank has to make an investigation is there any reason why it should take more than a week or ten days to dispose of an application for loan?—It should not take more than a fortnight on the outside.

Chairman : Do you think there is any scope for development of grain banks in Orissa?—There is very great scope.

Would you have them organised as co-operative societies?—Yes, whenever any business has to be done with the agriculturists of a credit nature it should be done by co-operative institutions. That is my decided view.

The most successful grain banks of which we have heard are those in the Santal Parganas?—But they are not co-operative grain *golas* I think. Some co-operative grain *golas* are equally successful.

No dividends are declared in such co-operative grain *golas*?—No, the profits are not distributed.

Then I take it that the profits thus made accumulate and are used up in the extension of the business?—Yes.

Is that the kind of bank you are contemplating for Orissa?—Yes.

Is there much room for extension in Chota Nagpur?—I think there is great scope in Orissa also. In Orissa there is a great need for these grain *golas* but we find the building problem very difficult.

Would it not be possible to sell part of the grain and invest the same in building?—I fear that it is not possible to do so. We must have the building first and then only we can start the business.

Do you think it sound policy for Government to give or lend at reasonably low terms for the erection of the building and also lend enough funds for the first supply of grain?—Yes, that will give a great impetus to the movement.

Do you think then that the business will prosper as in Santal Parganas and Angul?—Yes, certainly.

Mr. Hodge : Do you think that if Government aid is given in this way it should be in the form of a loan?—Yes, but I would advocate that it should be granted interest-free if possible.

And you would suggest the return of this money by instalments?—Yes, this could be done and I have also no objection to the levy of a small interest if the money is allowed to be returned within a period of ten years or more.

Do you not think that it is much more reasonable to ask for a loan from Government for this purpose rather than to ask for subsidies?—Yes, I agree.

Chairman : Are there any grain banks in Sambalpur which are worked successfully?—Yes, they are now working successfully as co-operative grain banks.

Are they extending their operations gradually?—Yes, but the societies there are working rather badly because of the tenancy law which prohibits them from mortgaging or transferring lands. But in Angul the business is working very well and the collections are made punctually without difficulty.

Is it not partly due to the fact that the Deputy Commissioner and the Subdivisional Officer who control the banks there hold both civil and criminal powers?—Of course that is true.

Professor Batheja: Is it also not a fact that people there are more primitive in their conception of honesty?—The prestige of the Deputy Commissioner and the Subdivisional Officer has much to do in this affair.

Chairman: Do you think that these banks could very well be introduced in Orissa as well without the prestige of the District Officer being the controlling authority?—It can be done provided the building question is satisfactorily solved.

Have you any experience in the Sambalpur district of village money-lending being carried on by Marwaris?—Not as a general rule, but I know of one instance in a village where a Marwari trader was also doing money-lending business.

But you are at present not in a position to say that it is a common agency there?—That is so.

Your fundamental idea of the future of the co-operative movement is to have a very considerable number of trained organisers and you have given an estimate of the cost of supplying a trained organiser for every thana in the Province. In one place you suggest that the salary should be between Rs. 100 to Rs. 250, but when you come to work out your estimate you have done it at the rate of Rs. 100 each?—I have made estimate calculating the initial expenditure only.

So your estimate is only for the first year and cannot be taken as an average for say twenty years?—No it is not the average. I have tried to indicate the initial outlay.

So ultimately you think the cost will double itself in about fifteen years' time?—That is so. Beginning with an expenditure of about Rs. 5 lakhs it will rise to Rs. 10 lakhs in fifteen years' time for the whole Province.

Would it not be necessary to increase the number of supervising staff?—Certainly.

Therefore it would cost a good deal more to supervise such a big organisation?—Yes, as more societies come into being it will need more expenditure.

When you get a trained organiser for each thana what do you think will be the need for Assistant Registrars?—Our estimate is to have one thousand societies to be controlled by each Assistant Registrar. That is the scale at present.

But even from the very beginning when you have these trained organisers in every thana would it not be necessary to have several additional Assistant Registrars to supervise and control their work?—It is not possible to work up the whole scheme all at once. We can only work the programme gradually. In the beginning, twenty new trained men may be entertained and their work could be supervised without difficulty by the existing Assistant Registrars.

So you contemplate that before fifteen years elapse the whole scheme would have been brought into force?—Yes.

Would they not still require, or at any rate the more recently recruited members posted to these thanas, supervision in their work?—Even now we have in almost every area a special officer who also organises the co-operative societies and his work is being supervised by the Assistant Registrar. One man cannot organise more than twenty to thirty societies in a year and it is not difficult to keep an eye on him.

Then your view is that only if all these men are appointed to work in all the thanas all at once they will require special supervising staff?—That is so but I do not expect to have all these men in the beginning altogether.

Is it your considered opinion that there will be no serious increase of Assistant Registrars or Deputy Registrars or joint Registrars required solely in order to look after the work of these trained organisers?—That depends on how many of them you are going to appoint in the area controlled by the same Assistant Registrar. If three or four are appointed in each area, the Assistant Registrar could easily control and supervise their work.

If you take up a particular subdivision say with eight thanas you think it is possible for an Assistant Registrar who is working in that area to keep an eye on the work of these eight people besides his other work?—It is possible to do so since I have suggested that these organisers should have undergone sufficient training for two years.

Mr. Hodge: How many organisers would you propose to train annually?—I suggest that not more than thirty men may be trained every year.

Chairman: So then you expect to have the whole staff trained up in ten years' time?—Yes, the idea is to train, as many as can be entertained.

Professor Batheja: Do you think such training alone of these organisers would be sufficient for removing the difficulties that lie in the way of the co-operative movement?—That is the only thing necessary at present for extending the movement on a sound and systematic basis.

Mr. Hodge: Do you recognise the importance of selecting these men before they are taken on to training?—Certainly my idea is that young graduates fresh from Universities and the very pick from among the existing managers of co-operative societies may be selected for training and I suggest that these men may be trained in our own co-operative institutions.

Are you aware if such a system of training is in vogue in other parts of India?—I have heard that there is an institute in Madras for training such organisers and also in the Punjab.

I understand the period of training in the Punjab is for a period of 18 months after which these people are deputed to work in a bank?—So far as I know there is no institute for training in the Punjab.

They have educational inspectors who train co-operative workers on the field. I think that a period of two years would be necessary to train a man properly in the theories of co-operation and in practical co-operative organisation work.

Chairman: Are you aware whether in the other provinces they employ organisers of this kind?—I am afraid they do not.

I think you have had an opportunity of studying the working of the co-operative movement in European countries. Are these organisers employed there?—Yes I have had some practical experience of the working of co-operative societies in the western countries. There the people are all fairly well educated and it is easy to train co-operators by means of printed matter.

In Italy the organisation of agricultural societies is not very well advanced but there are a great many urban banks there. There are other special features as well such as labour societies for providing employment to labouring classes, all working on a co-operative basis.

Mr. Hodge: Do you think the cost of these special organisers should be met by the societies themselves?—If necessary I would not hesitate to levy the cost on societies after they have been duly registered. After all it costs about Rs. 1,800 a year for each organiser and supposing he organises 30 societies in a year, the cost will work out to Rs. 60 for organising each society. I think the societies can bear this cost out of their profits, the repayment being spread over a number of years.

Chairman: Do you find that there is good scope for starting traders' banks in Orissa or Chota Nagpur?—I am afraid I cannot answer that question with any authority as I have not studied that matter. At present there are no traders' banks here.

Do you think it possible to start such a bank in the Cuttack town itself?—I think there is some scope but it would require very careful supervision and an able officer to control the same. Personally I am quite in favour of the suggestion.

You state in your memorandum that your experience is that every adult cultivator would require Rs. 100 annually for cultivation purposes and for meeting other social needs. How did you arrive at that figure?—It is a very rough idea and I cannot say it is quite reliable.

Then you say it is not at all desirable that *takavi* loans should be distributed in any village where there is a co-operative society. Do you mean to say that the mere fact that there is a co-operative society in a village should debar non-members in that village from getting *takavi* loans in times of distress?—What I meant was that all the distribution should be done through co-operative societies to members as well as non-members.

R. S. Loknath Misra: Do you mean to say that the Collector should send the money, required for grant of *takavi* loans to the

raiyats, to the co-operative societies for disposal?—What I suggest is that societies may be appointed the only agents for distribution of the loans. That is all.

Chairman: Do you suggest that the co-operative agency should be allowed to charge something for performing this function?—I think they should be given some percentage of the amount collected to cover the cost of collection.

Would it not be an evasion of the existing Co-operative Act if they did so?—I do not think it will be an evasion of the existing Act, because this function is not debarred. A co-operative society is not debarred from performing useful functions.

What would you put down as the charge, that the co-operative society should levy for this function?—They generally keep a margin of $3\frac{1}{8}$ per cent. for this purpose but I think 2 per cent. would do.

It has been suggested to us that the society might get $1\frac{1}{4}$ per cent. for this function. What is your view?—I would not object to that.

The idea is that the recipient will get his loan at $6\frac{1}{4}$ per cent. as at present, out of which Government will take 5 per cent. and the society the remaining $1\frac{1}{4}$ per cent.?—That is a good suggestion.

R. S. Loknath Misra: Would you make the society responsible for repayment with regard to members as well as non-members to whom they have made the loan?—With regard to the members they will have the responsibility but with regard to non-members I do not think the society will be ready to take the risk. They will act only as agents in regard to the latter.

Chairman: Under the statutory rules framed under the Agriculturists Loan Act in times of severe distress Government lend out loans on the joint unlimited liability of 10 persons. Is that so?—Of course it is done on joint liability of persons who borrow but it need not be on the application of ten persons. It may be signed by four or five.

Mr. Hodge: Should the society be made responsible for the *takavi* loan?—I would leave it to the option of the society.

Chairman: Has that system been ever tried at all?—I do not know whether it has been tried.

With regard to land improvement loans you say that the cultivators would prefer to get loans in their own village at 9 per cent. to loans at district headquarters at $6\frac{1}{4}$ per cent. Have they expressed their opinion to you personally?—That is based on my experience. Members of societies seldom take recourse to land improvement loans from Government.

Professor Bathija: You say that *mahajans* are monopolising business. Is there not a very keen competition amongst the *mahajans* themselves?—So far as money-lending to agriculturists is concerned I do not think there is very keen competition among them.

Is it not open for one borrower to leave his *mahajan* and go to another?—It is quite open for him to do so but in many cases and for all practical purposes he resorts to only one *mahajan*.

How is there a monopoly in this business? Cannot any man who has some spare capital set up this business of money-lending?—Monopoly in this sense that they are the only sources from which these agriculturists can get money, and moreover these *mahajans* are very few in number and they manage to dictate their own terms. What I meant was that there was really no serious competition between *mahajans* themselves.

R. B. Jalan : Do the *mahajans* combine among themselves and fix their own rates?—These *mahajans* to whom I am referring to are generally men with small capital and they charge high rates of interest.

Professor Batheja : You have not come across a case in which a *raiya* sets up *mahajani* business?—No.

Do you consider the *mahajans* as a specialised class of people?—I think so.

R. B. Jalan : Do these *mahajans* hold any *raiya* lands themselves?—Sometimes they do.

Professor Batheja : Have they got a sort of fellow-feeling for their own villagers on account of the fact that they themselves are villagers and *raiya*?—I know they are intensely hated by the people at large. No one talks about them without abusing them.

Mr. Hodge : Is there any tendency for the money-lender to get possession of the land?—All of them have got an eye on the land when they advance money on landed security.

Professor Batheja : You say there is also a monopoly in marketing the principal crops. What sort of monopoly have you in view?—There are a limited number of people carrying on this business and the *raiya*s are in their mercy.

Cannot the *raiya* set himself up as a *bepari*?—I have seen *raiya*s acting as *beparis* in businesses like lac and similar commodities but in agricultural produce they do not work as *beparis*. The *raiya*s who cultivate crops do not trade in their own produce.

You admit that there is competition amongst traders themselves. Will not that competition tend to lower the profits of these *beparis* to the absolute minimum?—Yes provided competition is keen enough.

Is not the business of paddy trading overcrowded?—Yes it is, but so far as it affects the cultivators primarily, they seem to be able to command what they want. I am inclined to think therefore that there is possibly a kind of trade unionism that prices should be kept at a certain figure.

Your remarks are not based on personal experience?—No.

Chairman : Are you in favour of land mortgage banks for petty zamindars and tenure-holders?—Yes.

Do you think there is much scope in Chota Nagpur and Orissa for these banks?—Yes, certainly.

Will you not have one in the Ranchi district?—Yes, it is needed.

You suggest that these land mortgage banks should be established on a co-operative basis. What exactly do you mean by that statement?—I am not very particular about that but that is only my suggestion.

We understood from some other people who were in favour of this scheme that the borrowers should be obliged to take up shares in the bank and should be liable in case of liquidation of the bank to pay up something considerably more than the actual value of the shares they have taken towards meeting the dues of others. Thereby they will obtain in return some right to have a say in the management of the bank?—Yes. I agree and that will give them a little more credit in the market. On second thoughts I think I would prefer to have these banks formed as joint stock banks with, possibly, Government help.

You also say that the producer can only get a better return for his produce if the subsidiary industries are organised on a co-operative basis. Why do you think that the growing of garden produce should be organised on a co-operative basis?—That was not my view at all. In fact garden produce is not really a subsidiary industry. I was thinking of rice hulling and oil-milling, etc.

Why do you think that co-operative organisation will be more successful than private enterprise?—I think it will be more profitable for them to have them worked up on a co-operative basis.

Are you not running a grave risk of breaking up the existing advantageous system of co-operative credit by tacking on these doubtful propositions?—I do admit there is a good deal of danger but I am assuming that we must take sufficient precaution before we take up such a business.

Are you aware that a good many people have started this business through private enterprise and they have suffered loss in some cases?—I have heard it. But as I said, in fact I am not very keen on this being worked on a co-operative basis.

Mr. Hodge: Is it your opinion then that a judicious wide extension of the co-operative movement would meet all the legitimate needs of the agriculturists?—Yes.

Professor Batheja: Is the co-operative movement able to meet all these needs now?—I am afraid the co-operative movement as at present organised is not able to meet all the needs, but it deserves to be strengthened and extended.

Which agency plays the most important part in agricultural finance—co-operative societies or the *mahajans*?—Quantitatively *mahajans* are playing a more important part in financing agriculture but co-operative societies are almost equally important now. As a matter of fact they have already reduced the *mahajan's* rate of interest considerably.

Have they brought down the rate of interest in the case of people who have very little security to offer?—They have brought down the rate of interest for all I think. People who have no security to offer never get a loan anywhere.

But is not the *mahajan* more accommodating in this respect than the co-operative society?—I think co-operative societies are more accommodating in this respect in financing people with no tangible security.

Granting that a *mahajan* plays an important part do you think he could be eliminated from the village society so far as money-lending is concerned?—I have no desire to eliminate him all at once but I want to substitute him as fast as possible by co-operative societies.

Would you not improve him in the meanwhile?—I would only start more societies on better lines and improve the existing ones. That would automatically improve the *mahajans*.

How many years will it take?—It has already begun to do so. That depends on what we are prepared to do for the agriculturists. I believe that in about twenty years' time we can safely establish the co-operative movement on a sound basis, throughout the Province, if my scheme is adopted.

Do you not think that we cannot go on mere assumptions?—On the other hand I believe it is an established proposition that the co-operative movement can be successfully improved and extended.

Have you got sufficient finance for appointing co-operative organisers?—That is a question for Government. I think it is possible to create a net-work of societies provided we have enough funds.

So all your statements are qualified ones?—They are all qualified no doubt but all of them are dependent on the question of finance.

Do you think funds will be forthcoming from Government?—I am not in the secrets of the Finance Department of the Government to answer that question.

Would you make the *mahajan* more useful to the society than he is now?—They cannot be improved unless we have more co-operative societies working on sounder lines.

Are you against any idea of making the operations of these *mahajans* more respectable and free from corruption?—I think it is almost impossible to free them from corruption, except by multiplying co-operative societies.

How many *mahajans* are there in this Province carrying on money-lending business?—There will at least be one man for every five or ten villages.

Granting that there are half a million *mahajans* in this Province do you think that all these people are unimprovable stuff?—It is all a question of opinion I think.

Would you not try to educate the *mahajans* as you have been trying to do so with the members of your societies?—I do not feel called on to do so, as I have something infinitely better to do.

Judging from your memorandum I thought you had great faith in educative value?—Yes certainly.

The village *mahajan* comes from the same class of people as those who are members of co-operative societies?—I agree. Why should we try to improve the *mahajans* when we have a better proposition before us of improving the existing co-operative movement.

Mr. Hodge : You would at any rate welcome the co-operation of the *mahajans* in extending the co-operative movement?—Yes certainly.

Mr. B. DAS, M.L.A., Cuttack.

MEMORANDUM.

I am indebted to the Chairman and members of the Bihar and Orissa Provincial Banking Enquiry Committee for this opportunity to appear before them and to express my views on national banking. The Provincial Banking Enquiry Committees and the Central Banking Enquiry Committee owe their origin to the initiative policy of the Hon'ble Sir George Schuster, the Finance Member of the Government of India, who is anxious to build the State Bank of India on a solid foundation. He characterised the defunct Reserve Bank Bill of his predecessor to be a superstructure without solid foundation. The people's complaint was that the former Finance Member was too anxious to exclude the members of Indian Legislature from controlling and guiding the destiny of the State Bank of India or its present functionary the Imperial Bank of India. Again the Assembly was highly disappointed in the vehement opposition of Sir Basil Blackett to Mr. S. N. Haji's resolution for a Banking Enquiry Committee in 1927. (Legislative Assembly Debates, February 1927.) Indian India therefore felt grateful to Sir George Schuster for accepting that popular demand and in not blindly trying to give effect to the recommendations of the Hilton Young Currency Commission.

For development of the right system of rural banking by having co-operative banks and agricultural banks to aid development of agriculture and industries, it is essential that the State Bank at the top should be the base from which shall radiate provincial co-operative and agricultural banks spreading networks of village banks all over the country. The recommendations of the Hilton Young Commission were contrary to this fundamental principle of national or State banking. Its recommendations to leave the Imperial Bank of India with its numerous branches in the country as the privileged and favoured bank of the State was the worst act of sin against State banking in India. This much-favoured position of that bank must go in the new design of State banking in India.

At present, and till 1931, the Imperial Bank of India enjoys the privilege of handling all Government money without any interest, which means that a sum amounting to Rs. 500 crores is handled free of interest by that Bank. Yet it charges very high interest to co-operative banks which can only reach village folks. I enclose herewith a copy of my

Imperial Bank of India Act Amendment Bill which I introduced on 26th September last in the Assembly and which I expect to get passed at the coming session of the Assembly, whereby I intend to control the renewal of contract with that bank and at the same time I desire to Indianise the management of that concern.

The floating balance of the taxpayers' money ought to assist the development of industries and agriculture with which the masses are vitally concerned. The State Bank should give advances varying from 3 to 5 per cent. to such banks and these should invest at 6 to 9 per cent. to agricultural and industrial interests. The present policy of Imperial Bank to help European enterprise as against Indian enterprise should cease.

The co-operative banking system in Bihar and Orissa is a huge fraud. It is controlled by the provincial executive and lawyer politicians. I condemn most the high rate of usury to village folks at $15\frac{3}{4}$ per cent. It has become a source of profit to investors, mainly Government servants, who even receive interest up to 8 per cent. on their deposit. Interest on such deposits can be only $\frac{1}{2}$ per cent. more than postal cash certificates or savings bank deposits. The present executive of co-operative banks must go and they must be real bankers and not, as at present it happens, rewards of loyal service to the Government by some provincial civil servant. These have no imagination and the huge surplus in their bank balances shew they do not understand elementary principles of banking. Again, Co-operative Departments have done little to encourage industries, to keep check that money advanced is spent on agriculture, or even to organise marketing of products which happen to be the main line of work of co-operative societies in advanced countries.

There is very little hoarding in Orissa. That old fetish of successive finance members of the Government of India recruited from Civil Service have proved to be a bloated-up theory to cover their own failures. The Hailyan frenzied financial policy superimposed by the forced depreciation of the rupee to 18 pence by the Blackettian ratio muddle have so much impoverished the masses that there is very little money in currency amongst masses. On the top of it the postal savings banks and cash certificates have all along collected the little that could be saved. To expect any further deposit from masses would require the restoration of the old rate of exchange at 16 pence to the rupee. The only chance of increased circulation of money lies if agricultural and co-operative banks to be installed take up disposal of output and products of farms and aided industries.

My views on indigenous banking (village *mahajans*) is that this is a necessary evil and must remain. Its destructive element can be toned down by the activities of co-operative and rural banking.

My views on joint stock banking are that it needs no aid from State Bank to thrive. Only the favoured position of the Imperial Bank must cease or alternately the Imperial Bank of India should become the State Bank of India actively financing the co-operative and rural banking and not working in antagonism to joint stock banks. In that case the State

Bank should transact the functions of exchange banks as well. And lastly the State Bank and all aided banks should give compulsory training to indigenous bankers to supply the army of bankers needed to organise and control the network of the banking all over the country.

Oral Evidence.

Chairman : Mr. Das, are you a member of the Legislative Assembly representing Bihar and Orissa?—I am a member of the Legislative Assembly for the Orissa constituency. I happen to be also a member of the Bihar and Orissa Chamber of Commerce and also of the Bombay Indian Merchants Chamber.

I understand you are not very well satisfied with the co-operative movement in Bihar and Orissa as it stands at present?—I am not satisfied with the co-operative movement in Bihar and Orissa at all and that remark applies more or less to other provinces of India. In Bihar and Orissa the rate of interest charged is high.

Professor Batheja : Why do you say that the co-operative banking is a huge fraud?—If they mean real co-operation, they ought not to charge more than 6 to 7 per cent. as the Imperial Bank and the provincial Government charge.

Chairman : There is no Government finance whatever in the co-operative movement?—The recent circular of the Imperial Bank is that they are not going to give any over-draft and finance to the co-operative movement.

The Imperial Bank had given a cash credit at half per cent. below the bank rate. That is the only concession which has been given to the Co-operative Department and that has been withdrawn?—I am trying to develop that the State Bank must finance co-operative banks at a low rate so that they might make a network all over the country.

Are you aware that the co-operative movement of this Province is at present able to get all the funds that it requires for loans to its members?—It lends at a high rate of interest.

What rate of interest do you think they are actually paying for their advance from the Imperial Bank to central banks?—They are paying half per cent. less than the bank rate.

They get most of their finance from deposits?—Yes. They are paying them 8 per cent. which I call absurd and I am surprised to find that most of the Government officials who have more loose cash deposit with the Imperial Bank.

Your objection is that they should not pay 8 per cent?—Yes.

Are you aware that the rate of interest in most central banks has been reduced to 6 per cent. on deposits?—If it has been done this year, I am not aware of the same.

Professor Batheja : On the whole you think that the co-operative bank rate of interest should be reduced?—Yes, and should not be more than 9 per cent. to the small borrowers in a village bank.

Mr. Hodge : Do you know that the rate is gradually falling and there are many co-operative societies in Bihar to-day, the members of which can borrow at 12 or even 11 per cent. ?—Yet I think that a Government aided institution or an institution solely maintained by Government should not maintain such a high rate of usury and worse it is to utilise the money in building huge buildings and paying high rate of interest to depositors that are not actual villagers.

The rate of interest on deposits has been reduced to 6 per cent. ?—I would like to see it reduced to the standard of postal cash certificates and the savings banks.

Professor Batheja : Are you aware that Government have nothing to do with fixing the rate of interest ?—It may be so.

Chairman : Do you know what the power of the Registrar is ?—His only power is to withdraw registration of the central banks, that is to say he has only one power that is the sentence of death.

The Registrar tries hard to reduce the rate of interest and the central banks refuse ?—As I mentioned it is the Government, the provincial Executive and the lawyer politicians that are spoiling the chances of co-operative banking.

Would you forbid any lawyer politician to be on the central bank ?—They should not be in a vast majority.

Can you suggest any means of getting people to come forward to undertake the rather thankless task of running co-operative central banks ?—Increase of banking education and trying to get hold of people who are not professional lawyers and professional politicians.

Mr. Hodge : You object to the officialization of the co-operative movement ?—Yes. The Government of Bihar and Orissa out of their goodwill for the people wanted to do something and through their departmental organisation tried to organise something but Government have always traditions of a hundred years old.

Chairman : Is it your charge against the co-operative movement that this movement was thrust upon the people by Government on the basis of the experience of hundred years ago without any kind of study of the subject anywhere else ?—I am not making any charge. I appreciate the good intentions of Government at the time they initiated the movement but matter should be brought up to date instead of being only transferred to popular control.

You mean to say that there ought to be more study of the way in which the co-operative movement is developing in other countries ?—I should say in the world. The indebtedness of the masses are every day increasing through causes that I need not describe.

Mr. Hodge : You suggest then that the Assistant Registrars should make thorough study of the movement ?—Yes. I want that the Registrar and Assistant Registrars should all be banking men.

Chairman : Would you advocate greater training in banking for the official staff ?—Yes.

Professor Batheja : What sort of banking training would you suggest for the officials?—I would say they should be members of the Institution of Bankers or should be recruited from the existing staff of the State Bank and the Imperial Bank of India.

Chairman : Do the joint stock banks at present take very much part in financing the agriculturists?—They do very little for small agriculturists.

Do you think the kind of training the bankers of the joint stock banks are capable of giving would be of very much use for running the co-operative banks?—I am not thinking of the existing banks. The Indian joint stock banks are few. The main genesis of this enquiry is the formation of a State bank or the Imperial Bank to be converted into a State bank.

Is there very little hoarding in Orissa?—Yes.

Is not much money buried underground or spent on ornaments?—Ornament is a necessary item.

Professor Batheja : Do you think the expenditure on ornaments is reasonable?—Yes.

Would you be surprised to hear that the people of Orissa spend more on ornaments than the people of Chota Nagpur and Bihar?—I have no experience of Bihar. Regarding Chota Nagpur, the people are primitive.

You say the indigenous banker is a necessary evil. In what respect?—They charge very high rate of interest which varies from 12 to 24 per cent.

Do you call a Kabuli an indigenous banker?—I am an Indian and I take everybody who deals in money-lending as a banker.

But you think that he cannot be dispensed with?—Yes; it is impossible to dispense with an institution so very necessary though at the same time harmful.

I am talking of the village *mahajan*?—Unless every village or every four or five villages have got rural banks which helps agriculture, trade and commerce, we cannot abolish the money-lender.

If you cannot abolish the village *mahajan* or the indigenous banker would you try to make him more useful to the community?—He is useful and he is amenable. He can be made more useful if he is advanced money by Government and under State control.

You think their activities should be controlled?—It may be possible in small places where there are very few moneyed men.

With your present views of co-operative banks, do you think that they will spread very rapidly?—If we will start with a clean slate.

Chairman : Would you abolish the entire co-operative movement and restart on different lines? What is to be the new basis?—We have already discussed that the executive should be trained bankers and then there should be less of politician or lawyer types of men but men who have real experience of co-operative work.

Do you see any prospect of men in Orissa taking up this work in the next ten years? The State Bank can hardly create a number of Oriyas who are prepared to run it on entirely different lines. You must be able to find your men?—I maintain that the State Bank will give the necessary training for the executive.

Do you contemplate that the State Bank directors should appoint the directorate of the new type of central banks?—The State Bank directors may appoint the central bank directors but they would not be allowed to interfere in the internal management.

Mr. Hodge : You approve of the principles of co-operative banks?—Yes.

Chairman : Is it not the central idea of the co-operative movement that the executive at every stage, i.e. the *panchayet* of the co-operative primary society and the directorate of the central bank, should be elected by the people?—That is the central idea but it does not work properly.

How could you possibly keep that principle if you insist on recruitment by your State Bank or some other agency and that everybody who is on the executive should have a particular form of banking training?—I am talking of the directors and also of bank managers.



सत्यमेव जयते

Friday, December 20, 1929.

CUTTACK.

PRESENT :

Mr. HUBBACK (*Chairman*).

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. BATHEJA.

Rai Bahadur RADHA KRISHNA JALAN.

Mr. N. SENAPATI, I.C.S., Collector of Puri.

QUESTION NO. I—SUB-QUESTION (3).

(a) PART PLAYED BY GOVERNMENT IN AGRICULTURAL FINANCE.

In this district Government plays an important part in financing the agriculturists in the shape of loans under the Agriculturists' Loans Act at the time of failure of monsoon or when damage is caused to crops by flood. In the following table are given the figures of such advances made during the past five years in Sadr and Khurda subdivisions :—

Year.	Taccavi advanced in—		
	Sadr.	Khurda.	Total.
	Rs.	Rs.	Rs.
1924-25	12,940		12,940
1925-26	1,08,703	5,445	1,14,148
1926-27	82,039	...	82,039
1927-28	29,120	...	29,120
1928-29	3,000	...	3,000
Total for the five years	...	...	2,41,247

Advances under the Land Improvement Loans Act are very small. The figures for the past five years are as under :—

Year.	Amount advanced in—		
	Sadr.	Khurda.	Total.
	Rs.	Rs.	Rs.
1924-25	400	1,250	1,650
1925-26	2,000	...	2,000
1926-27	...	625	625
1927-28	...	...	...
1928-29	400	600	1,000
Total for the five years	...	...	5,275

The agriculturists' loans (*takavi*) are advanced only as a measure to relieve distress occasioned by damage to crops by flood and drought, and the advance is generally a small amount, viz., not more than five rupees at a time per acre of land given as security. It is meant to meet the cost of buying seeds and seedlings for fresh planting of paddy on the damaged fields, or to sow *rabi* crops. The land improvement loans are taken for repairing or constructing bundhs as protection against floods in the Sadr subdivision and for reclamation of waste lands in the Khurda subdivision.

(b) PART PLAYED BY CO-OPERATIVE BANKS IN AGRICULTURAL FINANCE.

The Central Co-operative Banks give loans to such agriculturists who are members of rural societies affiliated to them. There are 244 societies in Sadr and 243 in Khurda subdivision. Of the money borrowed only a small portion, say about 30 per cent., is spent for purchase of lands, the rest of the money being spent in repaying old debts to other creditors and financing marriages and other ceremonies. The co-operative banks touch only a small fraction of the district. Its importance is known to only about 1/6th or 1/7th of the population in the district. It is only the persons involved in debts who approach the co-operative society. Very lately the co-operative movement has tried to take into its fold those who are not at all in debt and are in affluent circumstances.

(c) PART PLAYED BY JOINT STOCK BANKS IN AGRICULTURAL FINANCE.

There are two Joint Stock Banks in the Puri Town—namely (1) “The Jagannath Bank”, (2) “The Puri Bank.” These two banks give loans to the agriculturists as to others on proper security in the shape of land, houses or ornaments.

The rate of interest varies from 15 to 25 per cent. according to the nature of the security offered.

(d) INDIGENOUS BANKS AND BANKERS.

Indigenous banks and bankers do not exist here.

(e) PROFESSIONAL MONEY-LENDERS.

There is a large number of professional money-lenders who take an active part in the agricultural finance of the district. They advance money at a very high rate of interest varying from 25 per cent. to 37½ per cent. per annum. The debtors, whose habits are not generally thrifty, gradually find themselves involved in debt and either lose their security or have to sell their properties to the *mahajans*. On the other hand the money-lenders undergo not a small amount of trouble in realising their money by suits with much more expenses to themselves on account of pleaders' and muharrirs' fees than what is decreed by the courts as costs. Complaints are also heard that they have to incur extra expenses to have their cases properly attended to by the *amlas* and in feeding and lodging the witnesses, which are not disclosed and for which there is of course no recompense. They have therefore some excuse for

charging high rates of interest. Merchants and dealers advance money to the producers of crops to get back their values in kind at stipulated rates which are about 25 per cent. cheaper than the prevailing market rates.

(f) IMPERIAL BANK OF INDIA, ETC.

There is no branch of the Imperial Bank of India in the district nor are there any rural banks or bankers. Of the two joint stock banks of Puri, the Puri Bank is linked to the Imperial Bank of India by making current deposits there. There are no companies giving credit such as, companies trading in fertilisers, etc. The Chilean Nitrate Company (Indian delegation) have recently opened an agency in Puri Town for sale of nitrate of soda but they do not give credit.

SUB-QUESTION NO. 5—DEFECTS.

(a) The scope of the *takavi* loan which has been discussed in answer to question 3 is limited. It is given here for purchase of seeds only. It does not help the cultivators in making some lasting provisions such as purchasing bullocks, etc. This kind of loan is taken only by small cultivators. The bigger ones approach money-lenders, as for the same security they get more money from them, i.e., as much as Rs. 50 per acre as against five rupees offered by Government. Its scope might be widened and money advanced more liberally in tracts where there are substantial securities and little difficulties of realisation. This is necessary because in times of real distress the cultivators are compelled to dispose of some of their bullocks and land to tide over the difficulty. Any small amount that they receive is spent away for the necessary family expenses, or they go to the money-lender in spite of the loans received from Government. Their future staying power is lowered. There are, however, other tracts where distress is chronic, e.g., portions of the Gop, Brahmagiri and Kakatpur police-station jurisdictions in the Sadr subdivision where a little excess of flood causes damage to crops, and it is usual for the cultivators of such tracts to require *takavi* loans from year to year, and to pay the old loans they require fresh loans from Government or others. They are demoralized and make no attempts to better their conditions by any other means than their scanty and uncertain cultivation while their more sensible neighbours throw their lots in the labour market of the country. While, therefore, it is necessary to extend the scope of the Agriculturists' Loans Act to provide for necessary family expenses in a distressed area, it is the duty of the administration to see that such a provision in the Act is not abused.

(b) As to co-operative societies, the people of the district have not yet realised their advantage. They still look upon the co-operative bank as a co-operative money-lending concern of Government and the summary form of realisation of the arrear demands is naturally considered more coercive than the law suits brought by *mahajans*. Hence they think that they are no better than ordinary money-lenders. With the spread of the co-operative movement, it was expected that the *mahajans* would be obliged to reduce their rate of interest. But I am not aware how

far this expectation has been fulfilled. It was the original idea of the co-operative movement that the village society would make a capital of its own as reserve fund, but the co-operative authorities sometimes lose sight of it and without endeavouring to make a reserve fund to manage a village as quickly as possible the society is asked to spend a good proportion of its profits for meeting various overhead charges. The first thing therefore to do is to create a reserve fund in the village, sufficient to manage its own affairs, and then from the profits of the reserve as capital to meet the overhead charges.

(c) As to merchants and dealers it must be said that they cannot be eliminated but the large number of middlemen who come between the producers and consumers appropriate the greater portion of the profit and thereby they swell the price of the produce. I think the remedy lies in co-operative marketing.

(d) As to money-lenders they charge a high rate of interest and when the borrowers do not pay they take all coercive measures possible to realise their money. In explanation, the money-lenders often say that they have to meet the cost of litigation as a result of unwillingness on the part of the borrowers to pay up their dues.

SUB-QUESTION (6).

2. As to loans advanced by Government in the district for the past five years, vide answer to question 3. The reason why the Land Improvement Loans Act is not utilized by the people is as follows :—

(a) The petty cultivators do not venture to incur loans to improve their lands. The holdings consist of so many little patches here and there that there is little scope for improving the land. It is the big cultivators who make improvements on their lands by making their lands deeper, strengthening the ridges, and in making water reservoirs close by for irrigation.

(b) The nature of the country and the character of the soil differ a good deal in the two subdivisions of the district. In the Sadr subdivision the soil is alluvial and the lands are flat and low-lying, at places even below the beds of the rivers, except a portion of the Delang and Pipli police-station jurisdictions which border on the Khurda subdivision. The improvement suitable for this subdivision consists more in protection against floods and in providing for drainage than in making large provisions for irrigation. The parts which are not subject to inundation by flood are mostly sandy. For making bandhs, not only large sums of money are required but also permission from the Irrigation Department has to be obtained before making, renewing or adding to a bandh within one mile of the banks of almost all the rivers and their branches in the subdivision. Besides that, interests of the people in making protective bandhs conflict, because a bandh

constructed to protect one part will be damaging to another part by diverting the flood water. The Khurda subdivision is free from flood but its soil is hard being mostly laterite, and reclamation of waste land for cultivation and making a water reservoir for irrigation are expensive. It has, however, a number of springs which irrigate the low-lying paddy fields.

I do not think that the Land Improvement Loans Act itself is defective. It makes provision for joint loan by a body of persons or a village community when large sums of money are required for any extensive improvement although the rules are stringent about proper security and timely realization. It cannot be said that the ordinary money-lenders are less particular about security for the money they advance, which they do at far higher rate of interest.

As to the possibility of closer co-operation between Government and the other credit agencies, financing agriculture and forms of control over selected village money-lenders, my views are as under :—

The village *mahajans* constitute a body of men which has to be recognized as of first importance in rural finance. A scheme to control and improve that body is likely to produce better results than either the co-operative machinery or the Agriculturists' Loans Act. I am at the same time prepared to allow these two institutions, e.g. the co-operative societies and *takari* loans to compete with the village *mahajans* under more favourable circumstances—to control rural finance. It is possible for all three institutions to exist. The more favourable circumstances that I contemplate are—

- (1) giving certificate or other coercive powers to Assistant Registrars of Co-operative Societies;
- (2) extending the scope of the Agriculturists' Loans Act;
- (3) abolishing or modifying collective liability of members of co-operative societies and of loans under Agriculturists' Loans Act.

VALUE OF LAND.

3. As regards the value of lands in the district, the district sub-registrar, after examining sale-deeds in respect of raiyati occupancy right registered during 1927 and 1928, reports that the average value per acre is Rs. 191. The value of proprietary interest is a little higher than this figure. The value in the Khurda subdivision, which is free from flood, is somewhat higher. It is Rs. 283 and Rs. 284 per acre respectively. The Subdivisional Officer, Khurda, reports that the price of good paddy lands goes sometimes to as high a figure as Rs. 700 per acre. But this must be exceptional. The court sale figures are low.

For *raiya* rights it is on the average Rs. 51-8-0 in Khurda and Rs. 15-15-0 in the sadr subdivision. It is difficult to arrive at a correct standard figure of value of proprietary interest in court sales as very small fractional shares are sold and they are generally of unattractive kind and mismanaged.

4. The small subsidiary industries attached to agriculture are rice-husking, *gur*-making, garden produce and dairy farming. Helpless widows live on rice-husking. There are 3,100 acres of land under sugarcane cultivation, here and there, in the district. The juice is extracted with three roller iron mills which they either purchase or hire from stores of such mills opened at different centres by private enterprise. Gardening is generally done for home consumption of vegetables. In certain areas cocoanut gardening and vegetable growing form the staple industry. Growing betel leaves and marketing the same within and out of the district are done mainly in the Sadr subdivision (Sadr and Kakatpur police-station jurisdictions). Dairy farming is limited to only the milkmen caste. Very seldom it is resorted to by the cultivators as an industry. Cotton spinning has been reintroduced in about 100 families in the police-station jurisdiction of Begunia and Bolgarh in the Khurda subdivision, and Satyabadi in the Sadr subdivision. This industry is confined to the poor widows. It is not successful as it cannot compete with mill-made yarn. There is only one rice husking mill in the district at Kudiari near Khurda Road Railway station. It began its work last year. Fishery is an important occupation among the fisherman living on the coast of the Chilka lake. There are two ice factories at Kalupara Ghat and one at Balugaon for supplying ice to exporters of fish to Calcutta. Sea fishery is limited to a few families of Nulias living in Puri Town and at Arakh-Kuda. The outturn is partly used up for local consumption and the rest is exported to Calcutta. The Khurda Central Bank and the Nimapara Co-operative Union have attempted to introduce eri-culture among the people who are reported to have appreciated its value as a cottage industry. There is a small silk and tassar industry at Olsing in the Khurda subdivision. Its output is, however, very limited.

The following are some of the methods suggested by which the industries could be encouraged and by which the producers might be enabled to get a better return for their produce :—

- (1) By providing irrigation facilities for gardening, by digging wells and providing cheap and efficient pumps or lifts.
- (2) By providing stores of selected seeds and artificial manures and by cheapening the price of sugarcane-crushing mills.
- (3) By increasing the fodder supply for cows and cattle for dairy farms.

The enterprises which may give employment to the farmer during slack seasons to supplement his income are (1) gardening, (2) dairy farm, (3) spinning. Co-operative societies may supply working capital for such enterprises.

Oral Evidence.

Chairman : You are at present Collector and District Magistrate of Puri?—Yes.

What is your total service?—This is the ninth year of my service.

A good part of that service has been spent in the Orissa Division?—Yes.

What other parts of the province have you had experience of?—In the Shahabad district for about four years I was a Subdivisional Officer.

All your recent experience is in Orissa I suppose?—Yes.

You have given us very useful figures of the amount of *takavi* loans that have been advanced in the Puri district. Do you consider that the case of Puri is somewhat exceptional in the amount of loans granted towards alleviating the agricultural calamities that have been experienced in recent years?—I think so. In other parts of the province no such large amounts have been given.

Where the calamity only affects a comparatively small area is there any difficulty about getting a loan?—No.

What sort of area would you say is about the smallest area that Government would consider necessary to deal with by this special kind of *takavi* loan?—This year during the last rainy season there was an area of about six square miles that was flooded and the *takavi* loans were given in that area.

I take it that is mainly a question of how the local officer prepares his case?—Yes.

Professor Batheja : Is the *takavi* loan granted for such small areas in other places of Bihar and Orissa?—I have no experience of *takavi* loans in Bihar.

Chairman : Is the *takavi* loan advanced for meeting the cost of buying seeds and seedlings?—Yes.

Including seeds for sowing *rabi* crops?—Yes.

Is it intended in any way to meet other immediate needs of the cultivator for example his maintenance?—It is not intended to meet his maintenance cost but it is usually diverted.

Do you think that it is scarcely enough to meet both the needs?—It is not enough to meet both needs. It is enough only to meet the cost of transplantation.

Professor Batheja . Why is it inadequate?—The rate fixed is about Rs. 5 to an acre of land and it is not sufficient.

How is that rate fixed and who fixes the rate?—I think it is in the Act—I am not sure.

Chairman . I think you are wrong. I do not think it is in the Act.—I can say it is usually given at the rate of Rs. 5 an acre.

As far as you know is there any reason why it should not be increased?—There is no reason why it should not be increased.

Would you advocate its increase?—I would, say up to Rs. 50 an acre.

Do you think you can do that without pauperising the recipients? I think so.

You say that it is the duty of the administration to see that the Act is not abused?—Yes.

But is it your view that in an area where flood was frequent you can safely lend up to Rs. 50 an acre?—I think so. I expect, a year of flood will be followed by two years of normal crop.

That will, I think, be about one-fourth of the total value of the land?—I think it is more than one-fourth of the total value of the land in the average. The average value has been calculated from the court sales and from registration figures. We may say the average value of land will be about Rs. 150.

Do you think that the *raiya*t can easily pay back one-third of the value of his holding out of his surplus produce?—Of course there will be some difficulty. One-third is the maximum limit I should place.

Professor Batheja: Will he not have other needs also to satisfy besides repayment of his loan to Government?—He will have other needs as well but he should be able to curtail all other expenditure.

Chairman: He will have to postpone social ceremonies and all that I suppose?—Certainly he has to.

Professor Batheja: And will he have to postpone repayment of his debts to co-operative societies and *mahajans*?—He will have to.

Chairman: On the other hand if he really wanted Rs. 50 he will have to borrow amounts at higher rates of interest in order to carry him through for the next two years?—That is so.

You have not had any opportunity of enquiring in this particular area of six square miles whether the *raiya*t were driven largely to borrow from the *mahajans* and others as well as from Government?—In fact they did not take as much as we offered to give them because they were unwilling to accept joint liability.

Professor Batheja: How did they manage to raise their requirements from *mahajans*?—Well, they had sufficient savings to tide through the season.

Do you think if Government advanced *takavi* at a generous rate the temptation of cultivators to go to *mahajans* and co-operative societies will be reduced?—It will be reduced by a very small percentage only. The main reason why they go elsewhere is as I have already said out of fear of collective liability in regard to *takavi* loans, and to enable them to raise funds for their other requirements such as for ceremonies, etc.

Chairman: I think you are the Chairman of the Co-operative Central Bank at Puri?—Yes. I am the Chairman.

You say that the co-operative movement has been in a way able to bring in the more affluent cultivators into its fold. Is that as a result of special propaganda?—I cannot say.

Is the result satisfactory as far as you have been able to see?—Yes.

Are more affluent cultivators depositors in the central bank?—They also deposit along with others.

Professor Batheja : Are they compelled to take shares in the co-operative bank or do they buy them up voluntarily?—There is a certain percentage of compulsory shares to be purchased. It is about one-tenth of what a member could borrow.

Do these affluent cultivators possess most of the influence in the management of the particular co-operative society that you know of?—In this particular society of which I have personal knowledge they do exercise some influence.

Do they use up a larger portion of the society's funds to the detriment of the poorer cultivators?—I do not think they do that.

Chairman : We had evidence which went to show that people of this kind sometimes borrow money from the society and then lend it out to the non-members in the same village at higher rates of interest. What is your information in regard to that?—I have not come across any such thing.

How would it be possible to detect such cases?—Do you think the central bank organisation is adequate for stopping that kind of abuse?—I do not think it will be possible to detect such abuses at all.

Are these men who join the society and who are in affluent circumstances afraid of the principle of unlimited liability?—Yes, they are afraid to some extent. Most of the members of the society I know of are fairly affluent and they think they can take the risk.

Professor Batheja : Is this experience of yours confined to that particular society or others as well?—I have only experience of that society.

Chairman : You say that the societies are asked to spend a good portion of their profits towards meeting the various overhead charges. What are the charges that you are thinking of?—They are making certain levies on societies for the co-operative federation and some taxes are also levied and they are asked to subscribe to the Co-operative Federation Gazette.

Do you think that it is undesirable that this levy should be made?—I think at present it is not necessary.

Do you think that the money spent on the Co-operative Federation for example is not really worth spending?—I do not think it is worth spending.

You think that the first object which should be set before the society is to build up a sufficient reserve fund to enable it to lower the rate of interest?—Yes.

So your idea is that the present rate of interest may be kept up at the present figure till the society owns a fair amount of working capital?—Yes.

R. B. Jalan : Do the societies receive deposits?—Very rarely they get any.

Professor Batheja : Do you think it advisable for village societies to have dealings direct with the Provincial Co-operative Bank without recourse to central banks with a view to lower the rate of interest?—I do not think the provincial banks will be able to lend at a lower rate of interest if they deal directly with the village societies.

You think the middlemen are necessary in order to supervise the village organisation?—Yes, I believe it is necessary.

R. S. Loknath Misra : Have these societies made any efforts to attract deposits?—No.

Professor Batheja : Is it because they do not want deposits?—It is because members do not trust each other.

It has been the general experience of many co-operative officers in other parts of the Province that the rates of interest have been reduced by the *mahajans*. What is your opinion?—As a matter of fact I know that in that particular village with affluent members, the rate of interest charged by one of the *mahajans* is less than that of any other credit agency, but I do not know whether the rate had been higher before.

Do you not think when people compare the rates of co-operative societies with the rates of the *mahajans* they compare two unequal things?—Yes.

Chairman : In what respect?—In the first place there is very much heavier liability in borrowing money from the co-operative society. Secondly, money does not come in time when it is required while the *mahajans* give money readily, and thirdly, the *mahajan* does his business in his individual capacity and liability and therefore he is able to manage his loan better than the co-operative society.

Professor Batheja : Is there not a tendency for the *mahajans* to charge interest at least as much as the co-operative societies do?—Yes, but in some cases the *mahajans* do not collect the whole of the interest charged on paper. Although 25 to 37½ per cent. and sometimes even more than that is put down on paper, the *mahajan* is frequently satisfied with 15 to 20 per cent. if he gets it without a suit.

Chairman : In the Puri district there are two entirely different types of land, the land under the hills and the land in the plains running down to the sea. Taking the first class of land, do you see any prospect of extensive improvements in the undulating country which will require more finance?—I agree it is worth investigation.

You cannot give any kind of figure to show the extent of finance required for the purpose?—No.

Are the people inclined to carry through improvements themselves by their own labour in the Khurda subdivision?—Yes.

Is there any prospect of improving the land in the plains?—I can not think of possible improvements at present.

There is no great demand for money, I suppose, that could be spent usefully on building bunds for example?—I do not think there is much demand in the Puri district.

The plains part of the Puri district are rather over-embanked than under-embanked?—It is so in certain parts.

Puri district is your home district, I believe?—Yes.

You state that one of the reasons for high rate of interest is due to the amount of trouble experienced in realising money through litigation. Do you suggest any remedy for that?—If there could be legislation for speedy disposal of these suits, *mahajans* will, I think, naturally reduce their rates of interest.

Who tries these money suits?—The civil court munsifs.

Is there any complaint that money suits take a long time to get through?—That is the complaint everywhere.

Professor Batheja : Is it due to the difficulties of procedure?—It is generally believed that it is mostly due to difficulties of procedure. I cannot say anything about it myself as I have no experience in civil courts. The experience of people is that it is also due to too much of extra expenditure they have to incur in getting the suit through.

Do you think there is a lot of greasing the palms of the subordinates?—Yes.

Does it come to a big sum?—I think so.

Chairman : If you have more munsifs not only will they try cases more quickly but they will possibly find time to stop this petty corruption?—I think so.

Professor Batheja : Is the additional expenditure also due to the lawyers in some respects?—Yes, it is so.

Do you not think those tactics could be put a stop to by a strong munsif?—Yes, it could be done to some extent.

R. B. Jalan : Is it true that the cultivators experience more hardship from co-operative societies than the *mahajans* with respect to taking loans?—The rules of the co-operative societies are hard and fast and hence more rigorous than that of the *mahajans*. But with regard to the repayment the co-operative societies' rules are certainly simpler.

R. S. Loknath Misra : Is it not a fact that in most cases the parties are themselves responsible for the delay in the settlement of these suits?—My suspicion is that lawyers are responsible for the delay more than anybody else.

Chairman . You say that cotton-spinning has been introduced?—At present it has not been a great success from the financial point of view.

Does it supply a useful occupation for widows to make a small income?—It does.

You do not think it will be a useful industry to encourage for the spare time of the ordinary cultivator?—It is rather difficult to say, whether they have lot of spare time or not to take to this occupation.

What is your view?—The head of the family cannot spare time but there may be several parasites in the family who would be able to spare time. They could engage themselves in cotton-spinning, etc.

What class of family you are thinking of, the high caste family or the lower class?—Mainly the lower middle class to the higher classes. Except the head of the family the rest do nothing at present.

Is there any other industry which you could suggest?—We can extend eri-culture.

Is that making any headway?—It is rather slow but it is no doubt making headway.

Then you have given an account of the other industries connected with agriculture in this district. Is there any prospect of extension of rice-milling business in the Puri district?—I do not think there is much prospect. There is already a mill worked by power there and in the villages paddy is mainly husked.

Supposing a rice-mill were started would it conduct its operations cheaper than the cottage workers?—I doubt it. In the first place the initial charges will be heavy and moreover it will ultimately throw so many poor people out of employment in the village. The widows, for example, who go to different houses at present for husking paddy will not find employment.

Then, as a matter of fact you think that it will have rather the very opposite effect to what is contemplated in our questionnaire?—I think so.

Is it your view then that some special facilities for rice-milling is undesirable?—Yes, for the reasons I have already stated.

Professor Batheja : How is it that this indigenous cottage industry of rice-husking is able to hold its own against rice-mill industry?—I think it is due to cheapness of labour.

In another part of this Province the rice-mill industry has driven out the cottage industry in many areas. Why should it not operate in the same way in Puri district?—Perhaps if a mill did come in it may gradually be able to replace the husking industry.

Chairman : Is it not also partly due to the fact that the communications in the Puri district are not too good that rice-milling does not flourish there?—Yes, that is one of the chief reasons.

Professor Batheja : Where are these two rice-mills situated?—One in Jatni. There is only one.

Chairman : There are no rice-mills in the plains of the Puri district?—None.

Professor Batheja : Is there any room for leather industry in Puri?—In the Puri town there are large numbers of shoemakers and they

have a co-operative society for themselves. I think there is room for improvement if it is tackled in a businesslike manner.

Is there a large supply of raw hides and skins and sufficient skilled labour?—First of all we want sufficient hides for a tannery and locally in Puri district there are not sufficient skilled workmen to use all hides that may be obtained.

Chairman : Are there many centres of trade in Puri district where there are *golas* for storing the grain pending sale?—I do not think there are many.

Do you think there is any prospect of establishing more centres of that kind, e.g., in Nimapara which is a rather out of the way place?—I think the subject could be suitably investigated.

Compared to the Shahabad district is there adequate supply of places where grain can be brought in and stored?—No, there are not many facilities in Puri district.

Professor Batheja : Is it because that the Puri cultivators have not got much surplus for sale?—I have not investigated the matter.

Is there a large amount of rice exported from Puri?—I think exports are comparatively small except some through sea.

Is there no system prevalent for the cultivator to store his produce through the *goladar* and then get advances against the security of the produce?—I think there is no system like that prevalent in Puri district.

Are they able to get any advances against their own stores?—I do not think so.

Chairman : I suppose a large dealer in cocoanuts buys the cocoanuts outright?—Yes, and he also makes an advance before the stock is delivered.

Professor Batheja : He therefore does not give a fair price to the cultivators?—Probably it is so, otherwise he would not advance money to the cultivators.

Is there any opening for starting some store houses where these cultivators could store their produce and get advances on the same and the produce could be sold when the turn of prices in the market is favourable?—I think the co-operative societies are experimenting on that plan.

Is there any risk in storing?—There might be loss by theft, loss from damage by rats, worms and insects, etc.

Do you think co-operative societies can take up this work of storing?—Yes, they are trying to do so now.

Do you think co-operative sale societies will be able to do this work without some business capacity?—I think it is likely to suffer for want of business knowledge and business methods.

Would you ask these co-operative sale societies to sell the goods on commission basis rather than allow them to sell it in the open market?—I would encourage working on a commission basis.

Chairman : Is there a good deal of lending of paddy in Puri district?—There is some. There is more in the Cuttack district.

Do you think there is room enough for opening any grain banks in the Cuttack or the Puri district?—If started they would prove useful.

Would you make them work on a co-operative basis?—At present the big zamindars are doing the business of lending grain in those places.

Do you think the present rate for lending paddy is about 25 per cent at the end of a six months' period of loan?—I am not aware of that.

You say that the village *mahajans* constitute a body of men which has to be recognised as of first importance in rural finance, and you also suggest that a scheme may be devised to control and improve that body. Can you give us your scheme in a little more detail?—I would advocate a scheme by which the *mahajans* should be compelled to use a prescribed form of books of accounts and have their bonds drawn up with all details in a particular form. At present they take a blank signed paper from their debtors and I want this to be disallowed.

Professor Batheja : Would you compel all *mahajans* to act in conformity to the rules?—If it is possible to do so I will insist on all.

Or would you have a selected number of people who could be asked to conform to the rules?—Yes, that could be done and in return we could finance them at cheaper rates to meet their requirements.

Chairman : Do you think they require much more finance in the Puri district?—I do not think so.

Is there sufficient money in the mufassal?—I believe there are lots of hoarded money in the mufassal.

Do you think the *mahajans* are compelled to refuse applications for loans for want of finance?—I have no experience of that.

If there is enough money going round then the *mahajans* may not care to accept extra fund?—That is true.

Then what other concessions would you suggest to induce the *mahajans* to accept the control and regulation of their business by Government?—Assurance of the speedy disposal of suits may have some effect.

Professor Batheja : Do you think it is a sufficient inducement for them?—The main consideration of the *mahajan* is to see that his money is safe and is easily realisable.

What agency would you suggest to control the activities of those licensed *mahajans*?—I think the existing staff of executive officers would be able to do that.

Chairman : Dishonesty comes in only when the question of Demands Recovery Act?—That could be done.

Do you think it advisable to lay down that any client of such selected or licensed *mahajan* should immediately come under the certificate procedure?—I do not think there will be any abuse of power.

Would it not reduce the difficulties of the *mahajans* in realising their dues if the borrower could agree to that condition? Of course the borrower would get his loan at cheaper rates in such a case?—I think it would be possible to do so.

Professor Batheja: So you contemplate having two classes of *mahajans*, one controlled by Government in their operations and the other non-controlled as at present, leaving the option to the borrower to go to either of these two classes to get his loan?—Yes, that is my view.

Chairman: Would you limit the controlled *mahajans* to one kind of business only?—I would not like to control them even in respect of their clients who would not accept the procedure in realisation of dues.

Suppose a controlled *mahajan* has some of his clients who have agreed to the certificate procedure and others who have not agreed, you will hardly impose the same amount of control in respect of his dealings with the latter class of clients, unless you are prepared to impose that control on all *mahajans*?—Of course, that is the difficulty.

Professor Batheja: So you would confine the dealings of the controlled *mahajans* to those borrowers who are prepared to accept the certificate procedure?—Yes.

Chairman: Do you think the *mahajans* will agree to that?—As a matter of fact the *mahajans* expressed themselves in favour of having a set of “licensed *mahajans*.” That was only their general desire. I do not know whether they would accept the scheme if details are told them. I only doubt how far the clients may accept the certificate procedure but the *mahajans* may accept the terms.

Professor Batheja: Are there many clients who will prefer to have lower rates of interest plus certificate procedure to higher rates of interest plus the usual resort to law courts?—I think clients would prefer to have the latter course.

Do you think there is a class of really deserving people who may be called “honest debtors” who will be prepared to repay quickly without any trouble?—Of course there are people of that sort who borrow small sums of money for their agricultural requirements and other necessities.

Then you think that by introducing this system of certificate procedure it will automatically separate the honest from the dishonest debtors?—I think so. After all, we cannot make hard and fast classification between honest and a dishonest debtor, for both may be the same person but placed in different circumstances.

Chairman: Dishonesty comes in only when the question of repayment comes in?—Yes.

Professor Batheja: Supposing this system of having a licensed class of *mahajans* is introduced do you think that in course of time the controlled *mahajans* will multiply in number?—I think it possible.

Chairman : Would you and your executive officers be prepared to look after such an experiment yourself?—Yes, certainly.

Do you think the control of executive officers will be much more effective than the control by co-operative societies?—Certainly much more than the latter. I might add that the control by co-operative societies as at present constituted will be absolutely nil.

At the same time you would not allow these licensed *mahajans* to compete with the present co-operative societies?—No.

You say that the co-operative societies are in a bad way at present. Has there been any serious loss of confidence in the working of the co-operative societies?—Yes, there has been much loss of confidence in them.

And you think that a large body of borrowers would go for their loans to the licensed *mahajans*?—Yes, for short-term loans in the first instance.

So you would limit the activities of these licensed *mahajans* to short-term loans to begin with?—Yes, that is my suggestion.

Professor Batheja : Would you limit their loans for productive purposes only?—It will be difficult to work that scheme in actual practice.

Chairman : Would you not even aim at inducing the *mahajans* to restrict their loans to productive purposes only?—Of course I should aim at that policy.

And if you found a licensed *mahajan* who deliberately ignored such a policy you might ultimately withdraw the license granted to him?—Yes.

Professor Batheja : I note you are in favour of abolishing the principle of joint liability in co-operative societies. Would that not result in the abolition of the whole co-operative movement itself?—I believe that as a matter of fact the co-operative movement as it exists in this Province will die itself. We cannot possibly go on like this. The existing societies will have to be replaced by something different.

You do not think the disease is curable?—I do not think it is easily curable. Of course it has done a lot of good in some directions. There must be business capacity in the controlling officers.

Chairman : Do you think that responsibility is not sufficiently encouraged in the primary societies?—I do not think so. At present the central banks interfere too much with the working of the primary societies, and that in the wrong direction, e.g., in the Puri district they have asked the primary societies to revise their *kists* far too liberally.

Were the societies unwilling to have the *kists* revised?—Some societies did not accept to act like that and pressure was brought to bear upon them but I have stopped that.

What do you think was the object of the central bank in exercising that form of control?—Misunderstanding the circular from the Registrar of Co-operative Societies which only really wanted to have a small revision of the *kists* to avoid heavy arrears. The central banks wanted that revision without making any enquiries about the paying capacity of the primary societies.

Does the central bank in your opinion interfere too much in the grant of loans by the society to its members?—As a matter of fact the central bank grants the loans direct to the members through the primary societies. In some cases the bank reduces the loan.

Do you think that is an instance of excessive control which destroys the responsibility of the primary societies?—But I should think that is a control made in the right direction.

Professor Batheja : You think the primary societies are likely to abuse their freedom in this respect of granting loans?—I think so, as they are liable to get loans for unproductive purposes.

If you take away this function of guaranteeing the debts of individuals then what remains to the society?—That guarantee has never been put in force and wherever it has been put in force it has never been practicable.

So you think even this guarantee is superfluous?—Yes.

Does not the fear of being called upon to pay for the debts of other members act as a check on the society?—Of course theoretically it is so, but in practice they think it is merely a paper transaction.

Have they not been made to pay according to the principle of unlimited joint liability in some cases?—I know of only one instance.

So you think this single instance is a special one?—Yes.

Are you in favour of advancing loans under the Agricultural Improvements Act without the principle of unlimited joint liability?—I have very little experience of that but I do not think there will be any great difficulty in realisation.

The very fear that Government is advancing money will keep the people straight. Is that your view?—I think so.

Chairman : You have had some experience of realising *takavi* loans, I suppose?—Yes, I have some experience and I think there has been no trouble in realising them.

Do you think that Government would be able to get back these *takavi* loans without the principle of unlimited liability?—I do not think there will be much trouble in realising Government loans. As a matter of fact at present some people do not borrow money only because of the principle of unlimited liability.

You said there was lac of responsibility on the part of the central banks. In what way do you think they are not responsible?—They were giving out loans without adequate consideration of the purpose for

which loans have been granted, in other words they fail to see that the money is used for productive purposes and in realising money they do not make any serious attempt at doing so. Moreover in the revision of *kists* as I have stated they are acting arbitrarily.

Mr. G. SINHA, Professor of Economics, Ravenshaw College, Cuttack.

MEMORANDUM.

SAVINGS AND INVESTMENTS.

We are compelled to admit the unfortunate state of affairs that income per head of our population is too low to enable most people to save. And savings accrue in most cases from socially undesirable acquisitive sources as a result of this. The more thrifty zamindars who combine a lending business with cultivation, the bigger cultivators, contractors, professional men including *banias*, the higher paid service-people in the employ of Government or industrial concerns together with a fairly big section of the savers to whom money comes more easily in form of bribes, variously known as *dasturi*, *mamuli*, *salami* and other euphemistic names constitute the class of solvent people. It might be noted that had the mere acquisitive parts of these incomes remained in the hands that produced them, there would be less indebtedness, but less competition for land, but also a smaller volume of free funds available. There is another class of savers; that needs special mention. It consists people who stint themselves and their families to scrape together some initial capital and by means of hard toil in the field or shop, together the fruits of usury and niggardliness, graduate into *mahajans*.

The most common destination of these savings is lending or purchase of land. Most often, the first is merely a means to secure the second as an end. In and near industrial areas (like my own village) a small part of the savings flows into trade and another small part, of the prosperous artisans and workmen, is spent in an attempt to establish a higher standard of comfort and respectability (building better houses, replacing the other food grains by rice, taking the women behind the *pardah* and so on). But a much larger stream of savings flows from trade to finance the unproductive transfer of rentier interests in zamindaris from old to new hands. This is a pure waste of resources because the huge sum which annually finances these transactions never goes to fructify, but in some cases, rather to squeeze land.

It is my impression that the facilities for lending have partially reduced the habit of hoarding bullion. But it will be long before

the rural savers can invest in a way that they cannot see their wealth, cannot exercise any patronage and cannot utilise their savings if they need them.

Very few even of the literate people know about cash certificates, but the postal savings accounts are more popular. The usual criticism is that the rate of interest is too low. Should the Postal Department attract a more educated and educable type of recruits for the village post-offices and afford more respectable and safer premises for these offices, these savings banks can be used for sowing the seeds of investment habits provided the facilities for withdrawal are not curtailed. It seems quite practicable to allow the savings accounts to be operated as current accounts if the treasury and the paper currency departments undertake to help the Postal Department in times of seasonal or exceptional outflow of cash. An experiment might be embarked upon to encourage investment and cheque using habits by authorising depositors to draw cheques on their postal accounts. It may at first be confined to offices having telegraphic communications for safety and a charge for this method of remittance might be allowed as it will impinge on the earnings of the Postal Department for ordinary and telegraphic money-orders.

The habit of investment in industrial and trading concerns should first be encouraged among the rich urban savers. In a scheme for agrarian reform in Bihar which I have prepared for the Press, I have tried to show how, if the cultivators are allowed to redeem their holdings by paying a given multiple of their annual liabilities to the landlords or by surrendering a part of their holdings in lieu of it alternatively, that class of landlords which is responsible for diverting funds from trade to unproductive transfer of lands, and regards zamindaris as a mere form of investment will be eliminated and led back to the productive channels. Investment in rentier rights is a form of leakage which has got to be stopped if we want to mobilise the free funds of the community.

Another leakage of funds, collecting in smaller dribblets in the villages, is caused by the existence of demand for unproductive borrowing. Had the borrowings been for real productive purposes they would be self-terminating. Some sort of control over the existing system is necessary to discourage borrowing for unproductive purposes. It is a well-known fact that the *mahajan*, with his eyes on the borrowers' land, is more apt to encourage than to discourage it.

MARKETING.

The small producers do not get much surplus of staple food-grains to dispose of. The bigger cultivators usually carry their stock of cereals from year to year which they lend, but they sell now and then when they are in need of cash. The very big cultivators sell a part of the produce annually. Areas within easy reach of towns or railway stations secure better terms from the *banias*.

Money-crops are generally sold as soon as they are harvested. It seems that in case of oil-seeds, the cultivators does not get very good terms. But he is partly responsible for this because he usually mixes threshing floor refuse with the commodity.

As a rule, the cost of collecting the commodities in small quantities and transporting them to the centres of trade is very high. Bullock carts and pack animals are used to collect small parcels and send them to the railway station. The freight and the *mamuli* of the railway servants also cost more to the small *bania*. Next the prices of commodities like oilseeds, tobacco, potato and pulses are subject to greater fluctuations and the *bania* runs the risk of loss by an unfavourable turn in them. Hence the difference between the price that the *bania* gets from the bigger town *bania* and what he can afford to the producer.

A well organised system of co-operative marketing will surely do away with the losses to the producer caused by his bargaining weakness. But it can hardly reduce the cost of transport. Again the cost of the well-paid staff of this co-operative machinery has got to be compared to the cost of living of the ubiquitous *bania* who can live on a handful of rice and tramp the villages with a mere water-pot and a blanket. The fact that the *bania* finances the transaction with his own money and the co-operative pool will have to borrow, paying not only pure interest but also for risks of loss, has to be taken into account. Besides, the fluctuations in prices renders a system of holding back the supply with the help of borrowed money specially risky for the cultivator.

I would prefer to see co-operation in marketing to move cautiously, to confine itself first to securing a bargaining parity with the *bania*.

On the outskirts of a village *hat* are the familiar figures of another class of small *baniyas* who are there to buy for cash any quantity—from a handful to a few seers—of any storable product and pay coppers. They buy extraordinarily cheap, but I have not seen anyone of these growing rich. They exist because there is a morbid demand for them by society and their profit is really their wages.

Marketing is a more complicated process than producing and the *bania* who buys from the producer is the medium through whom all these costs are passed on to the latter. Even in England the price of fruits and vegetables to the consumer is about and over four times the price that the producer gets.

The problem of marketing of our export commodities requires investigation into the higher regions. The rates for the long hauls to the ports is quite fair, but we have to add the costs due to loss, pilferage and unauthorised charges. The prices offered by *baniyas* follow the prices dictated by a few foreign exporting firms so that competition is lacking.

I heard complaints by the sugarcane growers supplying canes to the mills about the malpractices of the weighing and payment clerks.

The former credit less weight and the ignorant cartmen cannot understand what the weighing machine registers, and then enter the accumulated balance in some fictitious name and draw the amount. The device is too clever to be a mere fabrication. The payment clerks are said to deduct *dasturi* according to Indian fashion when paying the bills.

AGRICULTURAL CREDIT.

It is not very common to come across cases of borrowing for really productive purposes and the existence of a huge burden of debt supports my view because productive borrowing, on the whole, would be more than merely self-terminating. The more solvent debtors, consisting of bigger cultivators and zamindars, have mainly borrowed for litigation and social ceremonies. The indebtedness of the poorer debtors, on the other hand, is due more to under-production and exploitation than to over-consumption.

The only *bona fide* case of productive borrowing is for the purchase of seeds, etc., for money-crops like potato, sugarcane, etc. Borrowing for expenses during cultivation really means borrowing in anticipation of the coming harvest for consumption. I have not seen anyone borrowing for introducing improvements because people do not see any scope for improvements or think these to be risky.

The rate of interest charged from zamindar borrowers is very low indeed ranging from 3 per cent. to 9 per cent. per annum. The rate from *raiya*s is from 12 per cent. to 24 per cent. according to the amount borrowed and nature of assets. These debts are generally secured by mortgages on land. The rate of interest from that class of borrowers which is the problem of the Government and of the Co-operative Department is usually high ranging from 18 per cent. to 36 per cent. in cash and 25 per cent. to 50 per cent. in kind. But it should be noted that these people borrow in small sums of a few rupees at a time or a little larger sums for buying cattle and for social needs. In kind also they borrow in small quantities as they required. For this class of borrowers, every body in the village who has got any savings is a lender.

I have submitted a village report of Bikranpore in Saran district. It is a big village of about 200 families and the indebtedness was calculated at about Rs. 60,000 over and above the debt already extinguished by transfer of land, or payments of instalments. We found the major portion of the debt—over a half of the total—incurred for litigation and social ceremonies by the richer people. Most of the other half consists of loans largely manipulated to keep a hold on the borrower for the sake of their land or labour.

The payment of rent, as a rule, need not be considered as a cause of indebtedness, but the first survey and settlement operation registered a heavier burden on the lower caste cultivators and the facile flat rate enhancement decrees have aggravated the evil. The compound rate

of interest is a powerful factor in keeping the labouring families entangled in debt and transferring proprietary rights in land.

I do not know of any professional money-lender. Everybody who has any savings is a creditor. And in Darbhanga I have seen borrowers taking loans which they, in turn, lend to labouring families to secure a prior claim on their labour.

The small borrowers usually secure the loans against a mere book-entry or against a hand-note or blank-paper with thumb impression. It is only when they are deep in debt with accumulated interests that their land is bought or mortgaged. Many of the *labourers* simply run away when they are deeply in debt.

It is difficult to be dogmatic about the effects on cultivation of the transfer of land to creditors. The creditors are in most cases better cultivators as shown by their prosperity. But the smaller cultivators are able to put the personal interests of the labour of the whole family in land.

MORTGAGE BANKS.

My knowledge here is wholly bookish. I understand it means the advancing of money on the security of landed property after a "purge" or foreclosure and the issue of transferable bonds against these mortgages so that mobility is imparted to land values. Should such banks be started, it is necessary to get a large amount of subscribed initial capital. But I doubt their success unless effect is given to my scheme of agrarian reform which will weed out the rentier landlord and convert the rest into cultivating landlords (like the Prussian Junker) and peasant proprietor, thus simplify rights, mobilise savings and create a demand for productive loans. Mortgage banks to lend on small bits from *rai-yati* holdings can hardly work economically and to lend to landlords with their existing in the majority of cases is to finance litigation or mere unproductive transfer of rentier rights.

INDIGENOUS BANKING.

I have noted that as I know, all rural lenders are amateurs though with some, lending may be more important than the other activities. Most people lend with an eye on the debtor's land and its amenity values. Others lend because of the need of having dependant families as labourers or for occasional help. The village shopkeeper, who may be a cultivator as well, has to sell on credit and mix up lending with it. It is a practice not really liked and great losses are incurred which are recouped by a high rate of interest which really includes the remuneration for a lot of work in book-keeping and collection of dues and also charges to cover the losses. Moreover money-suits are costly and protracted.

There is no class-feeling against lenders as everyone is a potential lender; of course, individuals noted for dishonest methods are talked about.

I do not think that lenders as a class will come to borrow from banks for their lending business. But professional urban lenders may be linked to banks.

The attempt to clear the total amount of existing debt through co-operative societies is futile. A better scheme would be to compound the obligations of those who apply for it and let them pay out by instalments from their earnings. Thus the race between compound interest and payments would be stopped and those debtors who are worth anything would be gradually.

After this an attempt may be made to regulate the village *mahajan* so that his books are inspected and he does not manipulate accounts, charges a reasonable rate of interest and lends only for productive purposes.

The village *mahajan* cannot be eliminated because banks or co-operative societies cannot lend food-grains and will not lend very small amounts or quantities and without much formalities. But the co-operative societies should welcome the regulation of the *mahajans* because it would render the latter less formidable competitors and would also improve the morale of co-operative societies, some of which are reported to be not free from corruption.

The regulation of the village lenders would not be very easy as—

- (1) the number of lenders is so great and cannot be curtailed without undue hardships to both parties ;
- (2) a cheap and honest inspecting staff cannot be had ; and
- (3) if union boards or village *panches* are made inspectors, they would come mainly from the creditor class.

Hence, it will be necessary to co-ordinate official and honorary local supervision.

Oral Evidence.

Chairman : Mr. Sinha, you are Professor of Economics in the Ravenshaw College?—Yes.

For how many years?—Just over two years.

To what other colleges had you been attached prior to that?—This is my first appointment.

So that your close experience is limited to Orissa in this Province?—I was Sub-Inspector of Schools for three or four years and I did a lot of touring in the Darbhanga district. I am also a cultivator there.

So besides the knowledge of economic conditions that you have picked up in Orissa you also have a fairly close knowledge of economic conditions in the Tirhut division?—Yes and I am a native of Chapra district.

You consider that the producer meets with a certain amount of loss owing to his bargaining weakness?—Yes.

Do you think that such a loss is considerable?—It all depends on what his need for money is.

Do you think that ordinarily the price paid for a commodity in the village is very different from the price paid in the headquarter town of the district?—Yes.

Have you ever investigated that question of price?—Yes. From the personal point of view, and I find that the difference can be explained by the incidental expense of marketing the product to a very large extent.

Do you think it is more than a reasonable return for the services rendered by the marketing agency?—I do not consider it to be so as a rule but sometimes it may be that the *bania* gets more than he ought to from small producers.

Professor Batheja : Does he normally get more than he is entitled to?—When he is dealing with big cultivators who have got to sell in big lots he just gets the normal profit but when he is collecting small parcels from a very large number of producers then he certainly gets more profit.

Is it not reasonable that he should get more for doing a much more difficult work?—Yes, but it can be avoided.

You say you cultivate your own land. How do you sell your produce?—There is a Marwari in the village and there are two or three Bihari *banias* also and whenever I require any money I ask them to buy it.

Did you ever try to sell your produce direct to some big *mahajan* in the subdivisional town or in the district headquarters?—That is too expensive for me. I do not think it will be worth while carrying small parcels to big centres.

Then why do you say that the profit of the *beparis* who collect small parcels of produce is unreasonable?—Just about one or two years ago I was in need of money. I asked my men to sell. The rate was settled at Rs. 3-2-0. Then I wrote another letter immediately and when my agent showed his eagerness to sell the *bania* just reduced the rate to Rs. 3-1-0 and I had to sell at that rate. That is what I have in view.

R. B. Jalan : What was the quantity?—I think it was 200 maunds.

Chairman : Do you expect speedy development of co-operative marketing which would cut down this profit?—I do not find enough enthusiasm among people in the co-operative movement.

Would such marketing find it easy to compete against a well-established organisation which does not get much more than the legitimate profit?—I cannot say definitely whether the co-operative machinery can do it more cheaply. I have mentioned that the cost of

living of a *bania* is very low and besides that he has got the experience of generations behind him.

You say that the co-operative movement should move cautiously?—Yes. The thing is in many cases lots of the money-crops like linseed, mustard seed and similar things are produced in very small quantities and in these things if all the producers of the village could collect their things at one place and then sell it, they would get better terms. I do not want co-operative society to hold and carry stock.

Have you any experience of marketing tobacco?—I have known cases of very wild fluctuations in the price of tobacco and a co-operative society should not run the risk of holding its stock.

The actual practice as regards tobacco I understand is that a *raiya*t of the village buys up the crop on the ground and cures it and passes it on to the next buyer. Do you not think there is more scope for the thrifty *raiya*ts doing the same thing as regards linseed, etc., instead of founding a society which probably would not be well managed?—I do not know of the method of marketing that you are just referring to. I have found that some of the traders specialise in tobacco. He is just like a travelling *bania*. He buys it and carries it to the nearest railways station and there is always some man there who buys it and then sends it away where it is required. Then I find that there is a big tobacco factory in Dalsingsarai. I was told that their practice is to buy the crop per *katha* while it is green, then cut it and cart it to their factory and there cure it. I do not know whether they are able to offer better terms to the cultivators.

Then you say that on the outskirts of a village where there are *hats* there is a class of small *banias* who buys extraordinarily small quantities. How do these people get along? What is the real need for them?—People who have not got any cash and have to purchase something from the *hat* take a handful or a seer or two of linseed, paddy, or any other thing and sell it to the *bania* and buy the things with the proceeds.

What kind of mills were you thinking of when speaking of complaints from sugarcane growers?—I have got a mill in my own village called the Marhawra Sugar Mill. Then there is another mill at Samastipur, and mills of those kinds.

Can you tell us how they get their cane?—The managers of the factories arrange to get the cane from the field by paying for it beforehand. They sometimes advance money to the cultivators. But the usual method seems to be that the cultivator cuts his cane and takes it to the factory. That seems to be very difficult because they have got to wait there sometime even for two days with the cart. There is loss of moisture and loss of weight.

Professor Batheja: Is it true that sometimes the cultivator is compelled to accept lower prices on the threat of going back and taking away his cane?—It is just possible because there is such a rush

of carts but I do not think the management of the factory would do such a mean thing.

Do you think the underlings do that?—Yes, they might.

Chairman : Do other factories buy through contractors?—I do not know of purchase through contractors.

Professor Batheja : Do you think there is a buyers' combination?—There is an understanding to divide the regions.

There is no sellers' combination?—No. I suggested to the cultivators to have a representative at the weighing machine co-operatively.

Chairman : Can the ordinary cultivator read off the machine?—I do not think so.

You suggest that the cultivator should have the power to pay off his rent charge by paying a certain amount of cash calculated on the rent?—I have prepared a scheme for the Press. This system has been adopted in all the leading European countries.

Professor Batheja : You think the zamindar is not performing any useful function?—I think not.

Ordinarily you think the zamindars do not make any improvements?—As a rule they do not and have no incentive for it.

Chairman : Where do you suggest the *raiya*s should get finance for rent redemption?—I expect that the more prosperous cultivators who are spending much of their money on usury should divert their funds to that business.

Do you think on the whole rent charge is a very serious charge on the agriculturist?—No, not always.

Do you think the land revenue is a pressing charge on the zamindar?—I think this system of collecting revenue through the zamindar is defective.

Of course, you realise that one of the primary functions of the zamindar is to pay Government revenue. Would not the widespread introduction of this scheme make it somewhat difficult to get in land revenue in future?—I do not think so. If I take your point of view of regarding the zamindar as an intermediary, I should think it is a very expensive machinery.

Then would you realise a portion of the rent at any rate direct from the cultivator?—Yes.

Do you think the zamindar would use his accumulated capital?—I think by temperament he is too quiescent to invest in risky ventures but at least if proper facilities are afforded I hope that this amount of accumulated money and also the gradual flow of money year after year can be utilised to a very large extent in buying the already safe investments.

But where the money would come from originally?—I expect to bring out some of the hoards of the more prosperous cultivators, and generally stimulate the will to work and save.

Has he got more incentive to relieve himself of the rent charge than he has to relieve himself of the debt charge to his *mahajan*?—I am more hopeful of it about the solvent class of small cultivators.

You are thinking of the prosperous cultivators?—Yes.

Is it, as a matter of fact, perfectly possible now for a zamindar to accept a capital amount in lieu of rent?—It is quite possible if he likes.

Would you advocate legislation to compel the landlord to accept a capital sum in lieu of future rental?—Yes.

You were good enough to carry out for us a survey of a particular village in the Saran district?—Yes.

You have found there that the indebtedness of a village is about Rs. 300 per household?—Yes.

Did you take in all kinds of people including landless labourers?—Yes, and the zamindar of the village is the biggest debtor.

Would that be an appreciable part of the population of the village?—It is not very large.

Would you put it at 10 per cent.?—Yes. Out of about Rs. 60,000 the said zamindar accounts for Rs. 25,000.

As we are trying to get the total indebtedness of the ordinary agriculturist, do you think that anybody who is indebted to the extent of over Rs. 5,000 is likely to be an extraordinary agriculturist?—I found that generally those people who had got less amount of assets were in debt. Many big cultivators, I think the majority of them, are lenders rather than borrowers.

Professor Batheja: Do you not think the inclusion of such a big item will upset the calculation of the indebtedness?—I found that the total amount of indebtedness of that class in which we are interested is not very great.

So that the average indebtedness per household is very much lower than that you mention here?—Yes.

You say that zamindars are able to borrow at rates as low as from 3 to 9 per cent. Is this true of special zamindars or is the normal rate paid by zamindars much less than that paid by raiyats?—Probably it is exceptional. This is so when there is some ulterior motive, it is not the normal rate.

Are the zamindars of your part of the country in debt generally?—Some of them are debtors and some are creditors.

I see that you are opposed to the creation of land mortgage banks for relieving indebtedness among the zamindars?—Because I have not seen any zamindar borrowing for productive purposes.

Do you think if a land mortgage bank was started it would result in misuse of money?—Yes.

Would it not serve the purpose of redeeming the debt?—Whether the land mortgage bank will bring any goodwill depends on whether this institution can lend at a lower rate than the existing rate.

It is generally assumed that the land mortgage bank will receive such facilities from the money market or from Government that it will be able to lend at a lower rate of interest and for a very long period so that the *kists* would be small. Would it not do some good in relieving the zamindars?—I doubt it very much in view of the normally high rate of interest in India whether the land mortgage bank can compete with the lenders who lend to zamindars. I know the lenders to zamindars are as a rule not strict and the rate of interest is not very high.

What is the normal rate of interest at which money is advanced to zamindars in your district?—I think 6 per cent. is the normal rate.

On the other hand would you be surprised to hear that in many parts of the Tirhut division the zamindars are not able to get any loans at all?—If that is a fact then it is worth investigating the causes.

Chairman : You say that compound interest is a powerful factor for keeping the agriculturist in debt. Would you advocate abolition of compound interest in the case of agricultural debt?—Provided there is some means of enforcing regular payment of the interest that accrues from year to year.

Would you be prepared to face the increase in the existing rate of interest which would almost certainly ensue if you abolished compound interest?—I do not think that the existing rate of interest will increase.

Professor Batheja : Do you not think it would happen this way? Granting that compound interest is made illegal, would not the *mahajan* try to recoup himself for the loss of this privilege by either charging a higher rate of simple interest or getting a bigger *salami* in advance?—That evil already exists.

Will not the *salami* increase if the taking of compound interest is declared illegal?—I cannot say that definitely because I find that *salami* was much more serious sometime back and public opinion has been rather condemning it and even those people who take this *salami* feel it and try to conceal it.

But does not the rate of interest depend upon the forces of supply and demand?—I do not think so. It is rather customary. It often happens that a man takes enough of loans at one place and when he finds that he cannot repay it suddenly decamps and so interest also includes charges for these risks.

Chairman : In your part of the country is there never any serious attempt to try to get these people back?—There is an attempt.

What steps do the creditors take?—They try to catch hold of him and bring him back by force or by threat.

Is the difficulty about getting labour largely a question of unwillingness to pay a higher rate than they were paid ten or fifteen years ago?—His rate of remuneration is quite fair but the demand for his labour is restricted to just a small period of the year.

But if you wish to keep a labour force which is unemployed for a large part of the year you have got to pay more?—Yes. The daily rate is fair and is customary. If anybody starts paying a higher rate, all the cultivators will come down upon him.

Professor Batheja : So that there is a sort of understanding between the agriculturist and the landlord to pay a certain rate?—Yes.

Are there many instances of hoarding in your part of the country?—I think some old women are still hoarding.

Chairman : When speaking of utilising the savings under your rent redemption scheme, you were aiming at the diversion of money which is at present used for purchase of land?—Yes, of diverting it to industries or into land.

You regard money used for purchase of land as being used uneconomically?—Yes.

Professor Batheja : Are you in favour of extending the present banking functions of post-offices?—Yes.

What are your reasons for that?—I want that at least an attempt should be made to familiarise the people with investment habits.

Do you think by extending the functions of the post-offices it will act as an educative agency for banking habits?—Yes.

It is also because you think the post-office covers a much wider area than any other banking system?—Yes, that is the main reason and besides people have got more confidence in them, than in other banking agencies.

Have they not got confidence even on the co-operative central banks?—Yes, post-office savings banks occupy the first place.

Why is it that in rural areas and subdivisional towns the post-office attracts such few savings?—The main reason is that the investment habit itself does not exist. I do not think illiterate people would start savings bank accounts.

Would you try to make this account more popular by having the pass books in the vernacular?—Yes, I think that would be an improvement in the right direction.

I see you are in favour of opening current accounts in post-offices. Do you propose to give this right to the whole public or only to special class of persons?—In the trading centres I think these accounts will be operated more intensively and in the rural areas mostly people will go on depositing for some time and then will withdraw in a lump.

Do you think that the present postal officials can be entrusted with the function of operating current accounts?—I think they can

operate current accounts quite easily provided they have the patience to do that. But when the question of making them subject to payment through cheques comes then we require a better class of officers.

Would you improve this present class of postal officials in order to extend the banking activities of the post-office?—Yes. I would like to see an improved type of recruits.

You say that the habit of investment in industrial and trading concerns should first be encouraged among the richer urban savers. How can it be encouraged? Have you any means to suggest?—I have been thinking that at first some propaganda might be made to popularize the already safe investments, for instance jute shares or railway bonds.

Is there sufficient demand for jute shares and railway shares?—Yes.

Chairman : Do you think jute shares are safe for investment?—Yes.

Did you ever contemplate investing in jute in 1920?—I did not mean it safe in that way, I meant already established industries. It is very difficult to get a safe investment.

Do you know what the price of certain jute shares was in 1920 and what it is now?—Of course the earnings will surely fluctuate. When I say safer forms of investment, I mean those industries which have already passed the risk of complete failure.

Professor Batheja : You are in favour of controlling the operations of money-lenders? With what object?—It is very necessary to make an attempt to eliminate their malpractices.

How would you eliminate the malpractices?—If they are required to keep an account of all the transactions and if Government makes them understand that any claims which are not properly entered and if possible endorsed by some people or the local inspecting or supervising *panchayet* or something like that, Government will not entertain these claims.

What will happen in those cases where the money-lender does not appear before Government officials or before a court?—Of course they are accepted by the needy borrowers but we have got to put a stop to these things.

Would you try the alternative method of controlling these *mahajans* by appealing to their self-interest, by offering them facilities in exchange for control and regulation?—I have mentioned that in my memorandum that most of these money-lenders are not pure and simple money-lenders and in fact anybody who has got a saving is a money-lender.

Is there any very great prejudice against money-lenders?—No.

Would it be possible to select some of these *mahajans* and in exchange for facilities impose some control over them?—That may be tried but I do not know whether there will be any demand from the

mahajans for money. Probably they would not borrow in order to lend.

Do you think that there is shortage of agricultural capital in your part of the country?—I have got rather some strong convictions. I do not find any great demand for productive loans.

Chairman: You think that there is no shortage of agricultural capital in Darbhanga and Saran districts?—There is no shortage. Sometimes money is required for growing money-crops and there would be no shortage if unproductive use is checked.

Professor Batheja: But may it not be that the man is already so busy with his present needs that he does not think of borrowing for productive purposes at all?—I do not find even the big European planters have introduced many improvements in agriculture that can be copied by the *raiya*t and requires financing.

Chairman: Not even improved cane?—Yes, there are some improvements in that line but some people were complaining in my village that the improved cane is so exhaustive to their land that they are not going to sow it again.

**Babu ANANTA CHARAN DAS of Madhyasasan, Mahajan Sahi,
District Guttack.**

Summary of the memorandum in Oriya.

1. Generally the *mahajans* advance money to agriculturists at a rate of interest varying from 12 per cent. to 25 per cent. per annum and the term of repayment of such loans varies from one year to two years. The land is taken on mortgage.

In our part of the country no cultivator borrows money from Government bank. Sometimes money is borrowed from co-operative society in villages where there are such societies.

I cannot say, even by guess, the extent of such loans.

As the debtors fail to repay the loan during the agreed term, the *mahajan* brings suit for the recovery of his dues before the claim is barred by the Law of Limitation. This is the practice in our part of the country.

No other *mahajan* except the co-operative bank has any connection with Government.

The *raiya*t takes the entire crop to his house and sells it according to his necessity in the nearest *hât* or bazar. He does not get sufficient crop to store.

2. There are *mahajans* in our part of the country, who advance money to *raiya*ts to enable them to wait till the highest price is

obtained for the crop. In such cases the *raiylats* borrow money from them to meet their expenses and repay the loan after selling the produce.

The *raiylats* in our part of the country do not export paddy. Foreign *mahajans* come and purchase paddy from the *raiylats* for exporting.

The people do not feel the necessity of a bank.

Neither *hundis* nor any form of mercantile documents are used here.

The stock of paddy is not sufficient for storing.

	Rs.
3. (a) The price of one acre of land ...	200
(b) For dofasali land per acre ...	250
(c) Biali and kulti land per acre ...	100
(d) Waste land per acre ...	50

But the price varies according to the crop obtained from any land.

Raiyati land cannot be mortgaged for more than nine years according to Orissa Tenancy Act.

There is no land mortgage bank nor there is any necessity for such bank.

The cultivators, in our part, do not manufacture *gura* nor do they grow vegetable or spin. When they have no cultivation work they go out for service but they may spin if cotton can be supplied to them.

There are savings banks and co-operative banks but people have got no money to deposit.

People do not keep gold or silver in any form other than ornament.

Many people do not know the advantages of the savings bank. They may occasionally deposit money in savings bank or in cash certificates if the usefulness of such investments be explained to them but as the interest is very low, people may not like that idea. They do not know anything about Government security. The interest on Government security is not attractive. The money which a *raiylat* gets by selling paddy is not sufficient to meet his expenses. An agriculturist does not lend money to fellow-agriculturist but prefers to invest on landed property if he gets any surplus money.

I like the idea of licensed money-lenders. The courts do not allow interest if it is excessive.

Oral Evidence (taken in Oriya).

Chairman: You are a contractor and money-lender?—Yes and I have some zamindari at Madhyasasan.

You say foreign *mahajans* come to purchase paddy. What do you mean by the word “foreign”?—I mean the *mahajans* coming from Cuttack. They may be either Oriyas or non-Oriyas.

You say the *mahajans* lend money to enable the *raiyats* to wait for the higher prices. What kind of crop are you thinking of?—Rice, tobacco and *rabi*.

At what rate?—At 25 per cent.

Where do they stock them?—They store the crop at the *raiyat's* house.

Does the *raiyat* ever make 25 per cent. by keeping his crop back for a few months?—There is some profit.

Why do you say there is no necessity for a land mortgage bank?—The local money-lenders advance money on mortgage of land.

Professor Batheja : For what period they advance money? Do they advance for a long term?—They advance for one or two years.

Are you aware that the land mortgage bank would lend for twenty to thirty years and make the *kists* very light?—The stipulated term is one to two years but they would wait for another six years. I did not know that the land mortgage bank would advance money for twenty or thirty years.

Is a *mahajan* by this arrangement lends in effect for a longer period does he not add compound interest to the principal at certain stated periods?—They do not charge compound interest.

Chairman : Do they not charge compound interest for any kind of loan?—For money advanced on very low rate of interest compound interest is charged.

Has compound interest always been rare in Orissa?—Compound interest is very rarely charged.

What do you mean when you say that you like the idea of licensed money-lenders?—Debtors would not be deceived by the *mahajans* as they will keep regular accounts and that account will be inspected from time to time.

Do you think that there are a good many people who feel like you and would be ready to have their books examined from time to time, if thereby they could be fairly sure that the courts would accept them?—There are some people who agree with me with the idea.

Have you discussed that idea with the people?—I have discussed the matter with some of my debtors and they agree.

Have you discussed it with the *mahajans*?—Yes, with three or four of them.

Would you require any other form of inducement to accept control of this kind?—The people would not keep regular accounts unless they are inspected by Government staff.

If by doing this you are more sure of getting the money back, would you be prepared to put down the rate of interest?—Yes I am willing to do that.

To what rate of interest?—Nine to 12 per cent.

Have you enough money to satisfy all the debtors that you can conveniently deal with?—I have never refused any debtor. I have sufficient cash.

Professor Batheja : Are there not some other *mahajans* in other areas who have not sufficient money to advance?—There are some *mahajans* who are compelled to refuse debtors.

Would those *mahajans* welcome accommodation from some central banking agency at a low rate of interest?—I do not think anybody would borrow money for the purpose of giving loans.

Chairman : Is it a fact that no agriculturist in this part of the world lends money to his fellow agriculturist?—Yes.

Professor Batheja : Have you ever been embarrassed with a surplus for which you could not find an opening in lending to the agriculturist?—I advance to those who come to ask.

Have you invested any money in Government security?—Yes.

What rate of interest do you get on securities?—Five to 6 per cent.

Have you got large sums of money in securities?—I have got Rs. 50,000.

Oral Evidence of GOPAL CHANDRA PRAHARAJ, Vakil and Zamindar, Cuttack. (This witness attended during the examination of previous witness.)

Chairman : You are a zamindar in the Sadr subdivision of Cuttack district?—Yes.

Do you think that this licensed *mahajan* scheme is likely to be effective in the Sadr subdivision?—I think so.

Do you think the Cuttack Sadr subdivision will be a suitable area for an experiment?—Yes.

Have you fairly wide knowledge of the *mahajans* in this area?—Yes.

How many people do you think would come forward to apply for license?—I think we might get twenty people.

Do you think it would be sufficient inducement to them if the fact that they were licensed were regarded by the civil courts as a fairly good indication that their books were kept in proper order?—Yes.

Do you think that the twenty people that you are contemplating would be prepared to undertake not to lend at a higher rate of interest than was laid down?—Yes.

You think that the principal defect in the co-operative societies in this part of the world is the provision of much too easy credit to the *raiyyat* and much too great leniency in pressing for payment at the early stages?—Yes.

Do you think that the licensed *mahajan* would be inclined to give credit much less easily than the co-operative societies and would insist on fairly regular payment and therefore would be better than the co-operative societies?—Yes.

Professor Batheja : You think that the licensed *mahajan* will not make credit too cheap. Would you prevent the licensed *mahajan* from acting in precisely the same way as at present of lending such money as he could with the object of getting hold of the land in due course?—There will be the check that there will be supervision by Government and he will have a fear.

Apart from Government supervision will not the interest of the *mahajan* himself induce him to lend rather cautiously?—No, because he will have a look at the land.

Is he not in danger of losing his money if he advances money too recklessly?—Yes.

Chairman : So that there would be some check on overfinancing because the *mahajan* might lose his money?—Yes.

Then would you advocate as a part of the control, that Government would exercise over the licensed *mahajan*, the prevention of lending too freely for non-productive purposes?—Yes.

Professor Batheja : You confine the operations of licensed *mahajans* to productive purposes. Would you give him freedom to lend for *Sradh* and marriages also?—Yes, and for other purposes also.

Chairman : By Government supervision would you try to make him lend only for what was really necessary and not to lend for ostentation on such occasions?—Yes.

Professor Batheja : If this class of licensed *mahajan* is set up, do you think that the co-operative societies will be in a serious danger of being deserted?—No.

Will there not be a tendency on the part of the members of co-operative societies to desert the society and go to such a *mahajan*?—I do not think so.

Do you think that the licensed *mahajan* will deal with an entirely different class of customers?—Yes, because in co-operative societies ten or twenty people co-operate together and everyone is responsible for each other's loans.

Chairman : The licensed *mahajan* would meet the needs of men who were not prepared to shoulder the responsibility of others?—Yes.

Professor Batheja : Or probably he would meet the needs of men who pay quickly and readily?—Yes.

Chairman : Would you suggest restricting the operations of the licensed *mahajans* to short-term credit or would you allow them to take up long-term loans?—Long-term loans also.

Professor Batheja : Would you be able to induce the *mahajans* to lend for longer periods?—Yes. For instance, if those who have been

investing in Government securities at 5 or 6 per cent. can see that the money is safe, they can lend at 9 per cent. and they can spread it over ten or twenty years.

Have you discussed this scheme with other *mahajans*?—Yes, and they agree with me.

Chairman : A part of the scheme is that the control should be vested entirely in the Collector and his subordinate officers?—Yes.

Would you advocate any form of advisory board for them?—My experience has been different. I can trust more on Government servants than on advisory boards and councils.

Would you not suggest, for example, that the licensed *mahajans* themselves should elect a member for the advisory board or some such board of control?—But the Government officials should be the controlling authority.

Professor Batheja : Would not the advisory board give at least some necessary information to the Collector?—Yes.

Would it be better to place the licensed *mahajan* under the direct control of the Collector and his subordinates or under the control of the Assistant Registrars of Co-operative Societies?—Under the control of Collectors.

Do you think that the licensed *mahajans* can also take the additional function of acting as licensed *goladars*?—Yes.

Chairman : Do you agree with Babu Ananta Charan that there is very little scope for a land mortgage bank for the smaller zamindars in the Cuttack district?—Yes.



Saturday, December 21, 1929.

CUTTACK.

PRESENT :

Mr. HUBBACK (*Chairman*).

Rai Bahadur BANSIDHAR DHANDHA-
NIA.

Rai Bahadur RADHA KRISHNA
JALAN.

Maulavi KASAM SALEH MUHAMMAD, Merchant, Chandbali.

Replies to the Questionnaire.

Paddy is the staple crop grown by the agriculturists of this district for which they keep in store seeds on reaping the previous crop. They supply their own labour and when extra labour is required it is obtainable on payment in kind but cash payment is preferred. As they do not apply any scientific method of cultivation and do not do anything for permanent improvement, they do not require anything in the shape of capital unless crop is lost for some unforeseen reason. Thus they have not to spend much exclusively for cultivation. Whatever small expenses they incur they get paddy loans from the *mahajans* near by, whose number is, of course, very limited, but apart from cultivation, they have to incur paddy loans for living and necessities for living; and cash loans for other expenses such as marriage, etc., and payment of rent, although in April *kist* they manage to pay the rent on selling a portion of the produce of the soil but for November *kist* they have to incur debt as then the paddy is not ripe and reaped. Things go on like this in ordinary good years but in the bad years when there are floods or droughts and insect pests damaging the crop they have to depend on loans from a few *mahajans* near by, Government *takavi* being insufficient; and many go abroad in search of employment. I say Government *takavi* insufficient not for their agricultural requirements for which they are quite sufficient, but as they have to face the problem of living a life, they do not apply the whole and in some cases even a part of it for agriculture.

Loans are raised—

- (1) On pledge of ornaments and utensils.
- (2) On hand-notes, registered or simple.
- (3) On simple stamp paper.

- (4) On registered bond of loan.
- (5) On registered bond pledging lands.
- (6) On usufructuary mortgage bonds.

Loans raised on pledge of ornaments and utensils are for the shortest period varying from a week to three months at the highest rate of interest, i.e., two annas a rupee per week or per month and if the principal and interest are not paid within the specified time the property goes to the lender at a quarter of the real price of the articles.

Loans raised on handnotes and simple stamp papers are for a period of one year at the rate of interest at Rs. 37-8-0 per cent., but unless the debtors have no other liabilities and are solvent the creditors are unwilling to let out loans on these bonds.

Loans on simple registered bonds and bonds pledging lands are for three years with the same rate of interest, but the difference is that these bonds are accepted where the solvency of the debtors is doubtful.

The most common of the bonds are the usufructuary mortgages by virtue of which the debtors do not pay interest but give creditors possession of the lands mortgaged whereupon they grow crops and take the produce towards interest which, excluding all expenses for cultivation, is not less than 50 per cent. of the capital.

When money cannot be raised by all these bonds, the agriculturists sell their holdings as the last resource.

Besides the above there is another system called *dadān* which is carried on between the merchants and the agriculturists. By this system the merchants lend out money to agriculturists fixing the price of the produce at a certain rate and after reaping the crop they supply the produce to the merchants in repayment of the advances, the price of which is certainly below the market price, almost half and sometimes one-third. Thus the outlay fetches as a profit an equal sum or double of the capital advanced.

The local money-lenders and the merchants grant loans and make profits as described above and in the case of money-lenders not succeeding in realising their dues they take possession of the pledged properties after institution of cases in the Civil Courts or making the debtors agreeable to sell a portion of the properties in repayment.

There have been started several co-operative credit societies on behalf of Government, but while every village has not got such a society, its working does not seem to be popular and prosperous. The rates of interest demanded by these societies are certainly lower, so the money-lenders view this with resentment. The societies grant loans of lump sums in cash but not in kind at a time, which sometimes are more than the requirements of the debtors but cannot grant occasional small advances for which they have to run to the *mahajans* near by. Then there are *kists* fixed by the societies for repayment of loans and most of these *kists* fall in such times when the debtors

require further loans and have no means of repayment. Thus, in my humble opinion, the people have not been fit enough to derive the benefits conferred by the societies for which the progress of the societies is not satisfactory.

Government grant agriculturists loans in cash on failure of crop but try to realize the dues just after the harvest when the price of the produce is too low. So the debtors have to sell too much. Then again if the time of realisation is prolonged, that is also not desirable, as in that case they will have nothing in stock by the time to repay the loans. So in my opinion this too has not been as satisfactory as it should have been.

It seems therefore useful if the societies and Government fix the time of repayment just after the harvest and realise the dues in kind in lieu of cash and sell when market is high enough so much of the stuff as would be sufficient for repayment, returning the balance to the person from whom it was realised.

As regards question 2, the above will answer as much as of the sub-questions the answers to which I am capable of giving. The only ~~current~~ ^{current} is *darsani hundi* on which payment is made instantly on production. Discount at 6 annas per cent. is sometimes demanded by merchants. Except the above, there are no other credit facilities in this district and no other bank.

Question 3.—The value of paddy lands per acre varies from Rs. 10 to Rs. 200. Lands yielding two or three crops a year sell at Rs. 500 to Rs. 700 an acre, but such lands are very rare. The value above quoted is by private negotiation which is according to the quality of the land. Lands are sold in auction at less values in courts in default of payment of rent, while the Civil Court decree sales bring the approximate value of the lands and sometimes more.

The answers to two questions under head 4 are in the negative. Should a mortgage bank be started, the mortgaged properties are to be sold through Civil Court under the existing laws, which is no doubt expensive. To my mind certificate procedure would be less expensive while registration of the mortgage bond should not be dispensed with. The mortgage bank may be financed by deposits and funds from central institutions, but in the initial stage deposits are not to be counted upon. Under the present system of law the longest period for which a property can be mortgaged is nine years, but should it be considered to make the period longer, there should be suitable provision in the law.

An average village will require about a thousand and half in money and kind considering indebtedness of the agriculturists. By an average village I mean a village consisting of 50 house-holders with 300 acres of arable lands and money and paddy-lenders amongst them. The money-lender possesses 100 acres and others 4 acres each on an average.

If a general census of all the loans by an enactment is made, the accurate figure can be found out under different heads required. In the district debts are incurred for all the items except (G) and (H) largely from the professional lenders. The rates of interest charged have been given above. Of course the lands are passing from the hands of the tenants to the lenders gradually but I do not think the agriculturists are unmindful of their cultivation on the lands pledged as they try to get as much crop therefrom as possible, but as they are still applying the primitive methods of cultivation and are ignorant of the present improved scientific methods they do not succeed in growing more crops.

Question 6.—The agriculturists are still in the habit of husking paddy by the primitive method of *dhenki* and rice of course sells higher than the paddy. Gur-making is current where sugarcane is cultivated but it is few and far between. If they are provided with paddy-husking machines it would be lucrative. Hand-spinning was once in vogue, which is almost extinct. This should be revived as also the cotton cultivation. Gardening is done but not with sufficient zeal as before. This should be encouraged and carried on in improved method. The spare times would be best utilized in spinning and rope-making out of produces from jute or any other fibre cultivation. ^{rope.} ~~which~~ should also be encouraged. Jute cultivation is in existence in some parts of the district but the produce is not sufficient to keep all the men engaged as the area cultivated is too small. If jute cultivation is encouraged and carried on on a large scale and export of raw materials to other parts of the country is stopped, they will find sufficient work at home and can sell the produce of their soil with their industry added at a higher price instead of serving elsewhere such as Calcutta and Rangoon. To encourage all these a sum of about five thousand will be sufficient for the purchase of good seeds which can be distributed through the mortgage banks.

Question 7.—There are no Imperial or Joint Stock banks in this district.

II. INDIGENOUS BANKING.

The so many money and paddy-lenders may be called the indigenous bankers carrying on the banking individually in the shape of granting loans but without taking any deposit. Their capitals are their own. *Hundi* system is unknown to them. They lend out money or paddy on taking bonds as described already and those who carry on the business on an extensive scale employ a muharrir or two to write up accounts and look after litigation and a labourer or two to measure up the paddy let out or repaid, where the lenders cannot manage to do these works themselves. The expense on this head may be a hundred or two. The earlier part of this will show what rate of interest is charged on money loans, but the rate of interest on paddy loans is 25 per cent. per annum. If the borrower returns the paddy within a month or two he has to pay the year's interest. Considering

the dryage and wastage of paddy I do not think the above rate of interest too high, but there is still room for a slight reduction. Interest on money loans is certainly ruinous. It would be good if these loans are granted by an organized body at a less rate of interest. A penal law to put a stop to high usury will not improve matters, as in that case the usurers won't grant any loan at all and the borrowers will suffer immense difficulties. On the other hand a mortgage bank will be able to repudiate the evil. These lenders will at last deposit their all with the mortgage bank, making advances, whether small or large, at a less interest as nobody will go to them for any loan. Such a bank at the outset will require a tremendous capital which ought to be advanced by the Government or by any central bank, but this advance will be reduced as the deposits swell in. Agricultural improvements for better outturns should be one of the reasons for granting loans. Once the habit is acquired by the agriculturists and the benefits derived they will stick to it. The money and paddy-lenders described are at present sufficiently protected by law and any further facilities afforded to them will prove fatal. It would be something if they can be made to serve on the banks by a penal law.

III. INVESTMENT HABIT, ETC.

The existing facilities in the district for investment are postal certificates, Postal Savings Bank, various Government securities and Central Co-operative Bank. There are many who have invested in these but there are many more who have not. Those who have invested have not done to the utmost of their capacity. The reason is that the interest offered is lower than what is obtainable by loans to the agriculturists. The maximum rate of interest is 8 per cent. payable by the Central Co-operative Bank, while the lending transactions fetch $37\frac{1}{2}$ per cent. People like to keep the money in their own coffers and lend out of it at their will rather than the investment in the above. The surplus of a prosperous year is stored and let out in the above manner in bad years which are too many.

There is no objection to the use of vernacular script in banking simultaneously with English.

I support the view that the banking and investment habit is of slow growth in India and slower in this district. The reason is that these things are purely western and foreign and so are viewed with meagre confidence. The people were never accustomed to these before and the facilities offered for the culture of the habit, though small, have not been assimilated by the people in general in the interior except in big cities and towns; but with the advance of years and widespreading of the facilities in the villages with the State aid, I hope the things will not be as they are at present.

Additional Questions.

1. Yes, they are backward. The people are not sufficiently educated and the banking habit has not been encouraged to the fullest extent and no steps taken to beat down the indigenous lenders.

2. Yes, there are investments from this district in the banks outside the province which would be best utilized in this district but the number of such investments will not be great. When a bank is established with State aid in the district with facilities offered in those banks they will not go outside the province to make the investments.

3. I have no idea.

4. There is no such bank, but the lenders, of whom a description has already been given, lend money and paddy on valuables. When a bank with initial State aid is established and one of its functions is to lend money or paddy on valuables at a reasonable interest the agriculturists will be benefited. Any State regulations to bring such lenders under control will necessitate entertainment of agencies to watch the carrying out of the regulations while the establishment of a mortgage bank will obviate the necessity.

5. In some places they do so and it is an evil too. Yes separate accounts ought to be enforced.

6. I am unable to decide to answer.

7. They should not be given any facility at all.

8. Saving is of course invested in lands and is the cause of high price of land at places but is not disproportionate to the outturn.

9. Some carry on business with their own small capitals while others contract loans in the manner the agriculturists do. When the credit bank is established, they too may be included as borrowers from the bank.

10. The Usurious Loans Act has little force in rural areas although its use is sometimes made in the Civil Courts in the cases in which the defendants make a plea of high interest, but in cases in which processes are suppressed to obtain an *ex parte* decree or the defendant out of awe or want of means does not appear this Act is rarely used.

Oral Evidence.

Chairman : You live in Chandbali and your business is export of rice and paddy?—Yes.

Where is your head office?—At Chandbali. I have got no branches now.

Where do you export your rice?—I export to Malabar, Calcutta and Colombo.

Do you send them to *arhatdars*?—Yes.

Does any ship come to Chandbali?—There is no regular service. Last year another merchant in Chandbali brought a steamer. He only shipped his own goods.

R. B. Jalan : From whom do you purchase?—From cultivators and local *beparis*.

Chairman : Do the cultivators bring their goods to your place?—Yes.

Are there no other *golas* between Bhadrak and Chandbali?—No.

Is there no other place where you can have a *gola*?—There is no flood at Chandbali but other places are affected by floods.

R. B. Jalan : What is the difference in the rate of rice which you buy between the *goladars* and the cultivators?—The difference is between half an anna to one anna six pies per maund.

Chairman : You speak of *dadan* in your memorandum. Is that in regard to the sale of paddy or of anything else?—They take an advance one or two months before.

Do you deal in that sort of business?—Yes.

At what rate do you make purchases?—We advance money and fix a certain rate and in some cases we advance money and the dealer will come to us to sell his goods and cannot go to any other place. The rate so fixed is two annas cheaper than the market value. The advance is deducted at the close of the year.

Do you carry on this sort of business direct with the cultivators?—Yes.

When do you give *dadan*?—In December and January.

When do the goods begin to come in?—From January.

In December and January the rate is lower?—Yes.

What is the difference in rate?—I purchase two annas cheaper.

Do you get any other interest?—No. The system is now becoming out of practice.

What do you mean when you say that the outlay fetches a profit equal to or double the capital advanced?—An advance of Rs. 50 may be made covering say 17 maunds. Actually the man brings in 50 maunds worth about Rs. 150. On each maund 2 annas is gained by the lower prices paid. Thus Rs. 6-4-0 will be gained on the Rs. 50 advanced. If this process is repeated eight times in the course of the selling season the profits will be about Rs. 50.

To put it in another way?—When *dadan* is made in December and January the price fixed in some cases is two annas less than the rate prevailing at the time, *i.e.*, if the price is Rs. 2-2-0 per maund the price fixed is Rs. 2. When the cultivator supplies the paddy say in

April the market price is Rs. 3 to Rs. 4 per maund, but according to the previous contract he will have to supply the paddy at the fixed rate of Rs. 2.

How do you provide yourself with cash for the purchase of the crop?—We draw *hundis* on Calcutta which are bought by the Marwaris who are importing salt, etc. We also get Government Currency notes in insured letters. The rate of discount is 2 to 6 *annas* per cent. These are *darshani hundis*.

How do you get finance for your business?—We do not use *mudati hundis* as there is no one to buy them. We take loans from the Marwaris and other money-lenders by means of hand-notes as required. The rate of interest is Rs. 1-9-0 to Rs. 2 per cent. per month. I borrow from Rs. 2 to Rs. 3 thousand when necessity arises, should my capital fall short but as the interest is high I do not care to borrow more.

R. B. Jalan : Is there no bank at Chandbali?—No.

How much do you usually have to borrow?—I borrow from 2 to 3 thousand but as the interest is high I do not care to borrow more.

Chairman : Do you think there is any need for grain banks in the Chandbali area?—Yes, it would be of great advantage to the cultivators.

Is there any lending on the stock of grain kept in your *gola*?—No, we purchase outright.

R. B. Dhandhanian : Is there any other *arhatdar* where the *beparis* or cultivators stock their grain and get an advance?—There is no such *arhatdar*.

Chairman : Is any *takavi* given in Chandbali area?—Yes.

Do you think it is sufficient?—The grant of *takavi* is sufficient for cultivation purposes but it does not cover the maintenance of the *raiyyat*, pending the harvest.

Do you think the grant of *takavi* should be more than is given at present, i.e., to provide for maintenance as well as for cultivation?—It would be a good thing if it could be done but there might be difficulties about realisation and longer time will have to be given for getting the money back.

R. B. Jalan : How long have you been carrying on your business?—For a very long time.

Chairman : Is there any central co-operative bank at Chandbali?—No.

How do you get your information about the co-operative societies?—By talking to cultivators with whom I deal.

You learn from the cultivators that there is delay in taking loans from the societies?—They cannot get money unless several of them combine.

R. B. Jalan : Are there Kabuli money-lenders?—The Kabulis do very little business in my part. They never have done much business.

Chairman : Is there any rice mill there?—No. But there is a rice-polishing machine.

Is there any opening for these mills?—Yes.

Do you think small rice mills should be given to cultivators?—It would be better.

Is there any such machine at Chandbali?—No. I saw paddy-husking machines in an exhibition at Balasore but I do not know what they cost.

Is there much jute grown in Chandbali?—There is no jute grown. I propose to induce the cultivators to grow jute.

R. B. Jalan : Is the land suitable for jute cultivation?—Yes.

Chairman : Will it not be damaged by floods?—There are places where there is no danger of damage.

Can the cultivators make rope out of jute?—If they are taught this work they can do it.

Is there any market for jute articles?—No.

R. B. Jalan : Would it be cheaper than factory manufacture?—The cultivators remain at home and can work there.

Chairman : You suggest that the export of raw material should be stopped?—I refer to jute and if it is utilised locally the manufactured articles will bring in more profit to the cultivators than selling it raw.

Can you give us any information about the dryage of paddy?—Two to four seers in a maund.

In what month is the grain borrowed and when is it returned?—They generally borrow in June and July and repay in November and December. Some of them pay in cash.

Do you use measures or weights?—The lenders and borrowers use measures.

Is there any difference then, due to dryage?—The lending and repaying is all done by measure.

R. B. Jalan : Do you require any banking facilities?—It would be an advantage.

Chairman : Do you think the cultivators will benefit by a land mortgage bank?—Yes.

Do you think the cultivators borrow money from co-operative societies?—Not much.

What sort of mortgage bank would you like?—I have explained my views already.

Babu KRISHNA MOHAN MAHANTY, Secretary, Jagannath Bank, Ltd., Puri.

Replies to the Questionnaire.

The agriculturist obtains temporary advance of paddy from the local paddy-owners for a certain period of time varying from three to six months on an interest of 25 per cent. for expenses and improvements during cultivation and when they do borrow paddy for any other purpose they exchange it for money in order to meet with their demands, i.e., for purchase of bullocks, payment of land revenue and for purposes of other necessities of life.

The standing crops and the landed property, if any, are always taken as security for advancing the loan and in some cases on the security of personal labour some amount of paddy advances are made by the local landowners. Sometimes merchants and paddy dealers advance money to the cultivators on the condition that they would return the money in shape of paddy at the time of paddy collection plus some commission known as *fau*. More than one *lakh* of rupees is required for the various purposes stated above for a district. These paddy transactions should be legalised, and compound interest which it carries at present should be abolished with due regard to the regular payment of annual interest due.

2. The merchants and paddy dealers keep a regular number of brokers who go from place to place for marketing the produce at the lowest rate. As far as Orissa is concerned, banks and bankers take no part in this direction. Only a few of the Marwari class use hand-script bills as *hundis* which are discounted among themselves. The opening of licensed warehouses through the medium of banks under the protection of law would remove the troubles of the retail dealers and of the people generally to a considerable extent.

3. The value of land per acre varies from rupees fifty to rupees five hundred according to the conditions, the produce and sites which the land bears. Lands are often sold by revenue sale and court decree at the lowest possible rate. But by private negotiation real value of the land is obtained.

4. There is no such mortgage bank as agricultural bank in Orissa for extending help to the landholders as well as to the tenants and as such mortgage banks should be opened at the principal centres of the villages—the capital of which should be derived mainly from the shares and deposits. The bank, instead of raising money on debenture bonds, should be authorized to advance money to the agriculturists and businessmen only on debenture bonds under the protection of the law. For an instance, one cultivator borrows money from the bank for the improvement of his land or for the payment of land revenue and accordingly he holds the produce of the said land under the debenture bond to the bank. In that case the bank shall have the

right to keep the produce of the said land in its custody and dispose of the same at the current market rate without taking shelter of the court for the satisfaction of its dues, if the debtor fails to pay off the due on his own accord. Secondly, a businessman borrows money from the bank pledging his shop or merchandise as security under the debenture bond to the bank and in that case the bank shall have the right to close the shop and to dispose of the articles by public auction as agreed upon for the full satisfaction of its dues in case of non-realisation of its dues from the businessman on good terms. In case of long-term credits, the interest should be realised per month and in case of its wilful violation, the interest should be compounded. Otherwise the bank cannot meet with its establishment expenses and also cannot regularly pay off the interest due to the depositors.

It seems to be difficult to ascertain the amount of indebtedness of the agricultural class of a district. But a rough estimate can be ascertained from an enquiry of the stamp vendors and registration offices at large as regards the number of stamps sold and registered for the purpose. The rural people very rarely pledge any other assets besides the landed property, the standing crops and in some cases their personal labour as security for taking any loan. Hardly people borrow money for sinking of wells and agricultural improvements but they do borrow for the repayments of old debts, for the payment of land revenue and for the expenses of marriage and other social functions. The creditors are generally the local petty money-lenders and paddy-owners and the interest charged for is generally 25 per cent. per annum and in case of paddy advances, the interest if unrealised, is added to the principal as a rule.

We have got no industry in Orissa for bettering the conditions of the rural people known as *mufassals*. Gardening, cottage-industry and hand-spinning should be encouraged in order to alleviate the miseries of the rural people. Practically these enterprises require no big capital but what it requires is the careful supervision and direct control of the man in charge. The working capital may be raised from the local people.

In Orissa there are very few banks and their relations with each other are not friendly. There is no other business so attractive and favourable for the time being in Orissa than the money-lending business and the Imperial Bank also has usurped the remittance business of the country which it has at present to a very limited extent. The relations between the indigenous bankers are too hostile and generally the cultivators do not get any support from them. The Marwari people use *hundis* only to a certain extent in Orissa and these *hundis* are mere demand drafts. The banks solely depend upon the public deposits which carry an interest of $7\frac{1}{2}$ per cent. and $3\frac{3}{4}$ per cent. per annum in case of fixed and current deposits respectively. The interest which the agriculturists do pay varies from 18 per cent. to 25 per cent. per annum. If the rate of interest would be lowered

and standardised and compulsory payment of the same per month would be realised by the Government then it would better the condition of the creditors as well as the debtors, who are regular cheats, and adequate provisions should be made by the State to protect the simple and honest people from the clutches of these cheats. Most of the people fall victims to the covetousness of the greedy creditors and thereby become homeless vagabonds and paupers in true sense of the word. Many noble and aristocratic families have been reduced to paupers by the high-handedness of the greedy creditors. In court the money-lending business should be regulated by the law, i.e., the amount which a creditor can advance to a certain person must depend upon the ability and assets of the man which he possesses for the time being so that he can easily pay off the advance from his personal income and the income of his assets without parting with the properties which he holds. In case of big debts, provision should be made for its realisation from the income of the property which he mortgages but the properties should not be disposed of by the money-lender through the help of the court.

The net return on the amount invested, would be $3\frac{1}{2}$ per cent. per annum to the banks and 8 per cent. to the bankers after making due allowances for all kinds of expenses and losses. Here, in Orissa, the indigenous bankers are always short of sufficient funds in order to satisfy the demand of the people at a time and some of the country and indigenous bankers are inclined to keep the surplus amount under the ground as reserved and they do not venture to invest the said amount owing to the unsound nature of the security offered and also owing to unnecessary trouble, expenses and unpleasantness which they are to undergo while realising their dues.

Provincial bank should act as banker of the local banks and it should advance money to the local banks at the time of need. The rate of interest and cash should be regulated according to the rise and fall of the money market. To inspire the confidence among the people the banks should be very prompt, regular and courteous in all its dealings with the constituents and should find out proper means in investing the money in agricultural and industrial developments of the country. To make the banks popular and attractive, the bank should be established on sound basis with Provincial Banks of the State as bankers at their back and its line of business should be conducted according to the existing conditions of the locality. The more the people of the country understand the value and usefulness of the bank the more they will be saved from the oppression of the indigenous bankers and will better their conditions materially to a considerable extent. And if the state of affairs continues in right earnest then the indigenous bankers will in the long run be turned into patronisers and bankers of the bank in order to avoid unnecessary troubles and other action which they undergo at present. Under the circumstances there can be no question of competition of the banks with the bankers.

In Orissa there is no lucrative concern for encouraging investment habits and, moreover, the people have not yet been accustomed to invest their savings if any, in any shape besides in silver, gold and lands.

People very little know of the use of the postal cash certificates, except a small minority and educated and rich class of the city. In order to popularise the use of the postal cash certificate among the masses the rate of interest should be a little higher than the rate which it carries at present and the payment of interest should be made monthly instead of being annually as it is now. Further restrictions should be imposed on the number of the postal cash certificates to be possessed by each individual from time to time. Otherwise the rich will usurp all, depriving the masses of its benefits.

Savings banks being Government concern have a strong hold over the people but for the stringency of its rules as regards the attractiveness as it ought to be. The pass book should contain vernacular scripts of its rules and other terms embodied therein.

The banking institutions would be more popular and lucrative if the Government sees its way to act through these institutions as media in attracting deposits from the people by issue of various kinds of security bonds. The rural people try their utmost to have a surplus from their annual produce and if they succeed in doing so, they naturally invest the same in lands and the indigenous people convert the surplus of their produce into money and they invest it in money-lending business as well as in lands. People in Orissa, unaccustomed to live upon any other functions of trade and commerce, solely depend upon the produce and personal labour.

Since the abolition of stamp-duty on cheques, the growth of cheque-habit is increasing steadily among the masses and the vernacular scripts on it will make the use of the cheque more popular and extensive. The commercial and rich classes use the cheque more freely than the rest of the community and payment to Government servants above Rs. 50 only by cheques should be encouraged.

Admittedly the banking and investing habit in India is of very slow growth and its causes may be attributed to ignorance, apathy and standing poverty due to failure of crops and unemployment. Moreover the people do not know how to manage their affairs economically and to live within their means according to the circumstances of the times.

Regular systematic propaganda should be carried on in the interiors and provision should be made for meeting with the expenses of the children's education and marriage and other social functions in order to encourage the investment habit of the people.

The opening of the new branches of the Imperial Bank of India has not served any useful purpose to the masses but rather has deprived the country of its resources which it formerly possessed by taking away all available surplus of the country in shape of deposits for

the benefit of the foreign people inasmuch as it does not invest the money in the locality for any agricultural and industrial purposes.

Oral Evidence.

Chairman: You are the Secretary of the Jagannath Bank, Ltd., at Puri?—Yes.

For how long has that bank been in existence?—For more than ten years.

And how long have you been working in that bank?—For the last seven years.

In your memorandum you have stated that merchants and paddy dealers advance money to the cultivators on the condition that they would return the money in shape of paddy at the time of paddy collection plus some commission known as *pao*. Will you please explain what you mean by *pao*?—It is some additional commission.

How much is the usual commission?—About two annas in the rupee.

How is the price of paddy fixed in those transactions?—It depends on the market rate.

In addition to the market rate you think they take two annas in the rupee?—Yes, the current market rate plus one-eighth of the paddy advanced.

Supposing a dealer advances Rs. 40. At the time of repayment the rate for paddy is Rs. 4 per maund. In that case you think the borrower pays back 10 maunds of paddy plus one-eighth of ten maunds?—Yes.

Is that method of dealing in paddy very general in the Puri district?—It is still very common.

Then you say that you are in favour of opening licensed warehouses. I suppose you are quite clear about the scheme?—Yes. The Imperial Bank is doing the business now.

(The Chairman explained to the witness the proposed scheme of licensed warehousing and then continued.)

Do you think your bank would be inclined to advance money to such a licensed warehouse man on either of those two systems which I have just explained to you? Without actually taking physical possession and control of the goods, do you think you will be able to advance money on the strength of certificates issued by those licensed warehouses?—No, we would not advance money without possession of goods.

So, you do not think your bank would be prepared to advance money on those conditions?—We do not think we can advance money unless we have the actual possession of the property or control over the same in some way.

Do you think in order to introduce such a system of warehousing, it should be necessary for Government to give a guarantee or security against failure of such a warehouse?—In that case I think the bank will not have any objection to advance money.

Would it not be convenient for the bank to have a fair amount of commercial paper of a self-liquidating character of that kind, paper on which you would ordinarily be able to get back your money after 60 or 90 days?—Yes.

Do you find at present it is rather difficult to place the money which the bank wishes to lend on securities which will liquidate themselves after a definite period? Is that one of the difficulties at present?—It is not much current now. We do not do much business in 60 or 90 days' *hundis*.

Is there no possibility of doing that?—It requires financial help to do that business.

You contemplate the creation of a mortgage bank in Orissa, but you seem to be against the idea that such a bank should raise money on debentures. Can you explain exactly why you are against the creation of finance for the bank that way?—I do not find any necessity for borrowing money on debentures.

(The Chairman explained what a debenture bond means and then continued the examination of the witness.)

Do you withdraw your objection now?—Yes.

Do you think that the main reason for the high rate of interest in Puri district that the agriculturists have to pay for raising their requirements is due to the fact that a considerable number of them are dishonest and do not intend to pay their debts back?—Yes, that is so.

Do you think that there is a class of person (agriculturist) who would be glad to enter into a contract that his land which is offered as security should be sold under a very summary process if he did not pay up his dues as stipulated in the contract, on condition that he in return got his loan at a considerably lower rate of interest?—I think it is possible.

Do you think there is a class of village money-lender who would take up this business of lending to honest debtors alone who would be prepared to agree to a summary procedure of realisation (in case of failure to pay according to contract) controlled by Government?—I think people will be willing to set up as money-lenders on such a scheme.

Your idea is that most banks make up a profit of about $3\frac{1}{2}$ per cent. on their working capital?—Yes.

But you say that the indigenous banker is able to make about 8 per cent. on his working capital?—Yes.

What class of indigenous banker are you thinking of, the men in the towns or the small village *mahajans*?—I mean the small *mahajans* who advance small loans to cultivators and traders.

Then you think that the village money-lender, although he charges from 18 to 25 per cent. interest he really makes only 8 per cent. after deducting bad debts, legal expenses, unforeseen charges, etc.?—Yes.

R. B. Jalan: Do you know the rate charged by the indigenous bankers at Calcutta in their dealings with merchants and other

dealers?—I think they lend at about 6 per cent., but I speak for the Puri district alone.

What is the local rate for lending money between one *mahajan* and another?—It is about 12 per cent. for short-term loans.

But on the whole they do not make more than 8 per cent. taking everything into consideration?—I do not think they make more than that.

Then you say that provincial banks should act as bankers of local banks. What kind of provincial banks you are thinking of?—I mean Government banks.

You are thinking of a new organisation which will act as local banker?—Yes, I mean the State Bank.

Possibly the State Bank would have a branch for the Province of Bihar and Orissa. Is that your idea?—Yes, and I would advocate the amalgamation of all private banks with the State Bank.

Then you think there is no need for private banks. Is that your idea?—Yes.

I see that you suggest that the postal cash certificates would be more popular if the interest is a little more raised. Do you think that it would become widely popular if the interest is raised and that it is only the present low rate of interest that stands in the way of people going in for postal cash certificates?—I think it would be better if interest is raised and then it will become more popular. Also if the interest is made payable monthly it will attract more men.

Supposing the present rate of 5 per cent. simple interest is raised by a half per cent. do you think there will be a rush to purchase postal cash certificate?—I think if it is raised to 6 per cent. then there will be a good demand.

Would there not be a danger that it would affect the deposits of private banks if the rate is increased to 6 per cent.? Will there not be unfair competition?—The main idea is that these cash certificates are intended to attract deposits from poor people.

Therefore you would check the competition by lowering the total amount that any one person could hold. Is that what you mean?—Yes, that could be done.

Your idea is that the richer people who support the joint stock banks and trade generally should not be allowed to purchase these postal cash certificates?—Yes, that is what I mean.

So you think that the postal cash certificates should be reserved to the small person rather than let him deposit his slender resources in doubtful concerns?—Yes.

Wednesday, January 8, 1930

RANCHI

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Mr. HODGE.

Rai Bahadur BANSIDHAR DHANDHANIA.

Rai Bahadur RADHA KRISHNA JALAN.

Reverend Father LIEFMAN, Ranchi.

Answers to the Additional Questions.

1. In general no money is borrowed for improvements, these not being undertaken unless the *raiyats* have the money in hand.

Loans are taken to buy seeds and bullocks.

Co-operative Banks lend at from 9½ per cent. to 18 per cent.

Paddy is lent between *raiyats* at 50 per cent. In the case of an inter-*raiyat* paddy store the interest is 25 per cent.

The money-lender takes usually 40 per cent. and if the *kist* be in arrear, more time is given, but the interest is added to the capital.

Raiyats lend money for a short term without interest; otherwise they take 20 per cent. or change the loan into a mortgage.

In the parts where the co-operative bank is known, the *raiyats*, the money-lenders and the bank provide an equal amount of money to the *raiyats*.

The part in financing played by the *raiyats* easily passes unperceived.

In general no documents are written unless the loans amount to more than Rs. 100, or Rs. 200.

As far as an estimate of indebtedness can be made, Rs. 60 per household of *raiyats* may probably be taken as an approximation.

In the district there are 250,000 householders. Of these probably 20,000 have no debts; 150,000 have debts which do not exceed 20 per cent. of their holdings; 80,000 have more debts.

Takavi loans are practically unknown.

There is no co-ordination between the various credit agencies.

2. By far the greater part of the crop is kept by the *raiyats* for personal use. The *raiyats* go themselves to the market they prefer and are able to obtain a fair price.

No pooling for marketing produce will succeed in any appreciable degree until the spirit of co-operation be more developed.

Rice and cotton are still bartered for salt and oil.

3. The price of land does not depend on the crop it can produce.

There is no standard price of land. The price of the same kind of land is not the same even in neighbouring villages.

In a village where many *raiyats* desire land, there the price of it will rise abnormally.

A *raiyat* prefers land to any other way of disposing of his money, even if the land were to bring in only 2 per cent. interest at present.

Sale for arrears of rent is not a fair standard. Much depends on the publicity given to the sale of it, for instance, lately, lands valued in the village at Rs. 3,000 were sold for Rs. 95.

Some thousands went to France during the war and brought back with them a good deal of money. Most of it was used to buy land, with the result that the *salamis* asked by the landlords increased considerably, i.e., the price of land rose very much.

4. Simple mortgages are allowed for five years only. *Bhugut bandha*, a mortgage which wipes out capital and interest, is allowed for seven years.

Bhugut bandha is the best means of helping a *raiyat*. Unhappily it is rarely made use of.

Zarpeshgi or simple mortgage is not advantageous. The custom is for the mortgagee not to give back the field until the money be repaid. Some fields are kept by the mortgagee for ten or fifteen years.

In 1905 (J. Reid's report, 1912) the area mortgaged was reckoned at 35 square miles, and the total indebtedness at about eight lakhs. Fifteen lakhs would probably be nearer the mark at present.

In general, near Ranchi, the indebtedness is much greater.

LAND MORTGAGE BANK.

The Ranchi district is a poor district with few possibilities for improvement. The *raiyat* may be compared to a man suffering from starvation. To save him help must be given in a small quantity and no new help given unless it be apparent that the first help has been used profitably. Any alien desirous of acquiring the land of an aboriginal will offer as mortgage money three times as much as an aboriginal would offer. His aim is to render the repayment impossible, so as to ruin the *raiyat*. The Government surely does not desire the ruin of the *raiyat*. Hence it is clear that great prudence is necessary in order to help the *raiyat* efficiently. To offer much money and great facilities of repayment would be to lead the *raiyat* to ruin,

An aboriginal taking a mortgage will give as mortgage money, as much as will produce 50 per cent. gross interest. From this 50 per cent. must be deducted the cost of his labour and cultivation. In other words he gives a moderate sum as mortgage money, thereby rendering it possible for the mortgagor to repay the debt and free his fields.

From the above it seems clear that indiscriminate liberality towards the *raiyat* would lead him to ruin. To help him efficiently the necessary loans should be given in small quantities at a time.

An example: A *raiyat* possesses 12 *pauwas* of land. The value of one *pauwa* is Rs. 400, say. Ten of the *pauwas* are mortgaged and cultivated by other people. The total debt on the ten *pauwas* amounts to Rs. 1,200. In this case the *raiyat* cultivates only two *pauwas*. These two *pauwas* alone should be accepted as guarantee for the first loan. A loan of say Rs. 240 would enable the *raiyat* to free two *pauwas*. If a *pauwa* has been mortgaged for Rs. 120, it means that the mortgagee could obtain from it 50 per cent. gross interest, or a crop worth Rs. 60. This very same amount could be obtained by the *raiyat*. Therefore in one year he would get from the two *pauwas* liberated Rs. 120, and would be able to repay the loan in three or four years, barring accidents.

Only after full repayment of the first loan should any new loan be given. Long-term loans are unadvisable and great strictness in exacting repayment will work for the good of the *raiyat*.

Co-operative banks cannot realize their debts. The amount of arrears in these banks is considerable. These banks (Ranchi district) have approached Government to obtain the right to sell the land of the *raiyat* for debts due to co-operative societies. The Government has wisely refused to make the concession, for the welfare of the *raiyat* is to be preferred to the success of any co-operative institution. In the same way the welfare of the *raiyat* is the aim and any land bank or mortgage bank is only a means to procure the welfare of the *raiyat*. Hence the proposed banks should be so managed as to free the *raiya*s from their debts. To obtain this great prudence will be necessary.

1. The funds necessary to such a bank should be procured as far as possible by obtaining deposits from the aboriginals.

2. That bank should be altogether and exclusively a Government institution.

3. A certain part of each holding should be declared "homestead," and that homestead should not be liable to be sold even for debts to the land bank.

4. The loan not to exceed the value of that portion of the holding which is neither homestead nor mortgaged.

5. No second loan should be given until—

(a) the first be fully repaid, and

(b) real proof obtained that the first loan has been used to redeem land.

6. A loan exceeding the limits fixed in no. 4 may be given, if a deposit of aboriginals be given as a guarantee for the excess. That guarantee may be deposited in a co-operative bank.

7. Loans may also be given to acquire the land of another *raiyat*. (Some *raiyats* are so burdened with debts that selling a part of their holding is the only way to save them. They are willing to do so, but too often the *raiyats* who are allowed by law to buy these fields have not the ready money.)

7. Co-operative banks are in need of a good bank in which to keep their current account and short-term deposits.

FINANCING OF THE CO-OPERATIVE MOVEMENT.

This is not needed at all. Any amount of money can be obtained from Patna, Bombay, Singapore, etc. Yet more money would promote still greater laxity in the giving of loans and increase the *raiyats'* indebtedness. No further exemption of income-tax need be granted, if the people who profit by it are outside depositors. These depositors do not take any interest in the *raiyat*, but wish solely to receive a high interest on their money. A genuine *raiyats'* bank working exclusively with the deposits of the *raiyats* would be worthy of receiving help and could receive it without bringing about laxity in the giving of loans.

III. The working of the Post Office Savings Bank is defective. Few *raiyats* deposit their savings in the Post Office and experience difficulty in withdrawing the money.

Most of the savings of the *raiyats* are used to take fields in mortgage, and some of the savings are still buried.

Additional Questions.

4. Pawnshops are not required here.

7. Licensed money-lenders are not desirable.

8. Yes, too much money is invested in land, thereby forcing up unreasonably the price of land. Land is scarce and few of the *raiyats* wish to abandon the status of "cultivator."

Oral Evidence.

Chairman: Could you describe exactly what your position is at the moment in the Catholic Mission here?—I am director of the co-operative bank.

How many years have you been in Ranchi now?—Some eighteen years.

How many years have you been the director?—For four years.

And prior to that?—I was in the Mission itself.

The organisation of the bank is one single society?—Yes only one society.

It covers not only the Ranchi district but parts of other districts as well?—Except for Palamau where it has got a few centres it is confined to the Ranchi district.

Are the members of the bank of your community only?—Yes.

Are they mainly aboriginals?—Yes. All of them are aboriginals.

You are director here and I take it you work through the fathers who are out in the *mufassal*?—Yes through them, but in each district there is a committee of management.

When you say district you mean a centre?—Yes.

How many centres are there?—Twenty-one.

Do they decide who is to receive the loans and to what extent?—Yes, subject to the veto of the assistant in charge of the station or centre.

Mr. Hodge : How are these committees formed?—They are elected by the members. Also each station chooses a delegate so we have 20 delegates on the general committee of management for the whole bank

How often does the general committee meet?—About four times a year.

Chairman : Is there any smaller body that assists you from time to time?—No.

Has the Catholic Bank attempted to distinguish between short-term and long-term loans?—No.

Are they lent on more or less short term?—Yes.

Is there any tendency to extend the loans into long-term loans?—Yes.

At the same time you probably admit that there are certain reasons for taking a loan which would justify a longer term, for example, redemption of mortgage?—Such loans are not given for more than five to six years. The whole mortgage is not to be redeemed at once. The people never go in for such big expenses as to mortgage all the fields at once.

Have you tried that system at all?—Yes.

Is it your experience that the members of your society are getting somewhat less punctual in their payments?—Yes a little.

Is that owing to failure of crops or for any other reason?—It is due to civilisation.

Professor Batheja : Is it due to the expenditure on drink or other luxuries?—No. Those who drink are not allowed to take loans.

What is the rate of interest charged?—9½ per cent.

When applications are made for getting loans is the purpose of the loan mentioned?—Yes.

For what purpose is the loan generally taken?—I should say about 60 per cent. of the loan is taken for redeeming land, taking land or

mortgage and so on and the remaining 40 per cent. for other needs such as for replacing bullocks.

Chairman : Could you give a rough estimate for the cattle?—20 or 25 per cent.

Do they borrow for seed at all?—Very poor ones and in a small amount say 5 per cent.

Professor Batheja : What is the percentage for unproductive purposes?—Very little. These loans are not allowed.

Chairman : Do you not give any loans for marriage?—No.

For litigation?—Indirectly we are obliged to do it. We are obliged to give the loan to prevent the loss of much land.

Professor Batheja : Do you take any care to see that money borrowed for one purpose is not spent for another?—In general we are quite sure that it is applied in the right way.

Mr. Hodge : Do you ever give loans for maintenance?—Practically none.

Do you ever get such applications?—We have got *dhan golas* from which poor people get *dhan* without interest or on small interest.

Are these *dhan golas* under the Co-operative Department?—No. They belong now altogether to the people but many have been started by the Bank.

Mr. Hodge : Is this practice of taking mortgage of only a part of the holding in operation now?—I have never taken a mortgage of the whole holding.

Is that the practice followed by the *mahajans* also?—Yes.

Professor Batheja : Would your bank advance money to the *raiyats* at the time of scarcity?—We leave this to the *dhan golas* and to other agencies. The bank does not advance. It induces unpunctuality.

Do you refuse loans to members who having borrowed from you go to others to borrow money?—I would discourage the giving of such a loan.

How do the people who have borrowed from you finance themselves for marriages and other social occasions?—We have our own *panchayets* in which it is decided how much they are allowed to spend at marriages and they themselves decide that on such occasions only so much will be given for dowry, etc., so the expenses for marriage are not considerable any more.

Even if a man requires some money for marriage with that control of the caste *panchayet* where does he raise it?—The village system is still very powerful in this country so the first thing is to try to get money from one of his *jat*.

Chairman : Do they pay interest?—If it is for a short time they pay no interest.

Professor Batheja : After having exhausted the resources of the *jat panchayets* they come to the bank?—Yes.

Chairman : Do a large proportion of your community go to *mahajans*?—It is difficult to answer that question.

Do you take any steps against the people who have borrowed from you and also borrowed from *mahajans*?—If it came to my knowledge I could not do very much provided they do not neglect regarding payment to the bank.

The general impression from your memorandum is that you are very nervous of cheap credit?—Yes.

At the same time you think that there is a sufficient amount of money to finance the existing system of agriculture and to effect the improvements which are immediately in view simply by money raised in the country itself?—Yes.

Is it still the case in the Ranchi district that a considerable amount of money in actual cash is buried?—It is.

Professor Batheja : What evidence have you that it is so?—For instance, I know of a village where about Rs. 2,000 would be found in each house.

Mr. Hodge : May I ask what you mean by cheap credit? Do you mean money on a low rate of interest?—I mean that money should not be given without ascertaining the chances of its being repaid and of its benefitting the borrower. In comparison the rate of interest is of secondary importance. Only when punctuality in the repaying of loans has been obtained, should money be given more freely.

Professor Batheja : You are not opposed to a lower rate of interest?—No.

You are in favour of small amounts being given?—Yes. We should ascertain whether the people who have been given these loans have profited by them.

Chairman : Your idea of redemption of debt is little by little?—Yes. If I give them a loan of Rs. 500 they would be able to redeem land worth Rs. 1,000 within two years.

Mr. Hodge : Your rate of interest is much lower than the rate of interest charged by the central co-operative bank here, is it not?—Yes.

Is your rate a fair economic rate?—Yes. "Plentiful credit" is a better term for what I fear than "cheap credit".

Do you as a rule cut down the amount of the loan asked for?—No, because the work is very well done by the *panchayets* in general.

Professor Batheja : How many accounts have you got?—I cannot say that just now.

R. B. Jalan : How many members have you got?—15,000.

How many per cent. take loan?—I think about 2,000 yearly.

What rates of interest do you pay on deposits from members?—6 per cent.

And from non-members?—4 per cent. and we intend to give an increased rate of interest to the depositors when they give their deposit as guarantee for other peoples' loans.

Chairman: That is to say ordinarily when a man borrows he brings in one or two guarantors?—Yes they find it safer not to give many the loan, directly but to give it through the Bank.

Professor Batheja: In case of failure the deposits are forfeited?—Yes.

Have there been any such cases?—No.

Mr. Hodge: Have you no connection with the Provincial Bank?—Surely.

Do you not borrow from the Provincial Bank?—We have had no occasion to borrow.

Chairman: You spoke of Rs. 3 lakhs of deposits?—I should not call it deposit. It is made up of reserve fund, etc. Pure deposit Rs. 1 lakh, deposit from non-members Rs. $\frac{1}{2}$ lakh and the total capital is Rs. 3 lakhs.

Professor Batheja: Do you think such an organisation would succeed if organised on a non-communal basis?—Not now out later on it will succeed.

Mr. Hodge: Your society is not on a share basis?—No.

R. B. Jalan: What do you mean by saying that a certain part of each holding should be declared homestead and should not be liable to sale?—I mean that a part of the holding should be declared inalienable even for debts to Government. If a *raiyat* has say 10 acres of land 2 acres might be left as homestead and in no case should it be attachable.

Professor Batheja: What you think should be the size of the homestead land?—It is very difficult to say that; it depends on the quality of land.

What is the average size of the holding here?—In acres I cannot say.

Some people cannot depend entirely on agriculture, they are either labourers in the area itself or else they go to coalfields or possibly to Assam?—Yes.

Are there a large number of people who have not got enough to live on?—Yes.

What would be the percentage?—That is difficult to say.

But ordinarily co-operative societies which are found in other parts of the province will not help such people?—But we do. I see no reason why a loan should be refused. If a man wants Rs. 5 and gives two sureties why should he not get the loan.

We are discussing on the assumption that the man has not got enough to live on?—The question is that if he can give sureties we should not refuse him the loan.

You have got greater knowledge about the condition of members?—Yes the *panchayets* have.

Chairman: Do you think one of the objects of a land mortgage bank should be to arrange sales between aboriginal *raiya*s?—Yes.

What rate of interest do you think the land mortgage bank should demand?—18 per cent. would be too much.

Do you think they could do the business at your rate?—I do not think Government would be able to do it at 9 per cent.

Professor Batheja: Do you think it would be a success if it was more than 9 per cent.?—That all depends on the way in which the money is given. Whether it be 9 or 12 per cent. Government should insist on punctuality in payments.

What remedy would you suggest if any borrower is unpunctual?—To sell his land.

Chairman: Do you think that is an absolutely fundamental difficulty of any scheme of land mortgage banks in the Ranchi district, that would ultimately have to sell part of the holdings?—If a land mortgage bank were started it would be necessary to make some example to teach punctuality in the paying of *kists*.

Your scheme is a tentative scheme, and you think that if anything can be done this is the way to do it, but you are not quite sure of it?—I am not sure whether a land bank would be a success. I think such a bank should act with great prudence in the beginning and that the *raiya*t should be safeguarded against his own imprudence. Perhaps that bank would do well to start by giving to a co-operative bank a certain amount of money to redeem fields with the proviso that in case of default a portion of the holding might be sold by Government. Co-operative banks are already in touch with the *raiya*s. The land bank would know less about intending borrowers.

Do you think Government ought to work through the existing co-operative organisation?—Yes, that can be done if confidence can be put in this or that bank.

Mr. Hodge: Are you thinking of the larger landholder?—Mostly of the ordinary *raiya*t.

Do you think that the right of possession would not be sufficient for a land bank?—To take possession of the land without selling it.

Will the officials of the bank take possession?—That is not practicable.

Chairman: Would it not be possible for the management of the bank to find some other *raiya*t in the village who will be prepared to take it up on half-produce terms?—There would, of course, be the fear of a breach of the peace. We cannot be in charge of the field.

Mr. Hodge: Would there be any actual hardship in the sale of land?—If it were done by an order of Government it would be safer. There is no doubt that many people here have lost the enjoyment of their land on account of advance of money which amounted probably not

one-tenth of the value of the land and these people can be helped provided they show themselves worthy of help.

Professor Batheja : Would you allow things to go on as they are?—No, let Government go on. Let there be a trial in a very prudent way.

Chairman : What happens when land is sold by the landlord for arrears of rent? When the Court has actually come in is there any such apprehension of a breach of the peace?—They say “ *Sarkar ka hukm hai* ”.

So that if it was definitely understood that Government was at the back of the land mortgage bank the possible fear of a breach of the peace in enforcing the sale would not arise?—No, there would be no breach of peace if the land were sold but if the cultivating possession only were transferred there might remain some danger of a breach of peace.

Mr. Hodge : You mean that the right to sell should be very carefully safeguarded?—Yes.

If the members of that land bank were very carefully chosen, do you not think there is a likelihood of its succeeding?—Provided they act prudently. They should give say Rs. 50,000 in the first year and see how the people profit by these loans and according to the real result of this loan again advance money.

It would need very careful investigation in the beginning and very careful supervision?—Yes.

Professor Batheja : Have you any reason to give why a high rate of interest prevails in Chota Nagpur?—Is it high?

It is higher here than it is in Orissa. Is it possible that the restriction on sale of land or the inferior security which the borrower has got is responsible for this?—No. The people are very simple and they pay what they are asked to pay.

Is there no competition amongst the *mahajans*?—No.

Is there no competition between the co-operative societies and the *mahajans*?—No.

You do not think the inferior security is the cause of the high rate of interest?—No.

What remedy would you suggest for lowering the rate of interest—civilize them and take away the simplicity?—That is an evil which will cure itself.

Mr. Hodge : You yourself are committed to a much lower rate of interest than the prevailing rate of interest?—And still some people go to the *mahajan*.

Chairman : Are ordinary loans given for short-terms by your bank very promptly after the demand?—Yes.

How long does it take to get the money?—In general the borrower receives the loan the day after. The money is given to him in the station. If the assistant is quite sure that the loan will be passed, he pays without waiting for the approval of the central office.

I suppose they report to you that such a loan has been given?—All the papers come to Ranchi within the month in which the loan is given. If I refuse the loan the money is not sent to the station.

The assistants in charge of the station act really as managers of branches?—Yes.

And they have cash at their disposal?—Yes.

Mr. Hodge : Does this Committee of Management meet to consider these applications?—They must consider all applications.

Chairman : How often does the Committee of Management meet?—Every month. After a loan is passed by this committee the Father has power of veto. If he does not veto the loan then the papers are sent to me.

If he does not use his veto the money is paid out?—Yes, if he has the money. But if he has not got the money, he asks me for it.

Mr. Hodge : If during a month a man has to borrow money, has he to wait for the meeting?—They can foresee the need easily.

Professor Batheja : Are you connected with the Ranchi Central Bank?—No.

Have you any opportunity of seeing the working of that bank?—I cannot say anything.

Why is it not possible for the Ranchi Central Co-operative Bank to reduce the rate of interest to the same rate that you take. I take it that a good deal of your deposits come from elsewhere either in India or elsewhere?—It is all Chota Nagpur aboriginal money. In the beginning we borrowed from outside some Rs. 20,000 or Rs. 30,000 but all this has been repaid.

What is the expense of your bank?—It is very little.

Mr. Hodge : A good deal of the work is done by yourself and agents of the Mission?—Yes, and we are not paid. In each different station there is a munshi who gets only Rs. 4 a month from the bank. So the expenses are very small in our bank. Every year we make Rs. 6,000 to Rs. 7,000 profit. The profits go to the funds of the bank.

The Committee of Management meets once a month and that is the time when the loan applications are received. In the case of emergency there may have to be a delay of a week or a fortnight?—Yes, it may be. In some case the Father if he has the money in hand advances it even before the Committee of Management meets.

Chairman : As regards marketing, are you satisfied that the system of marketing in Ranchi district is reasonably good?—I understand that *dhan* is sent out to Calcutta to get a better rate. It may be or may not be.

You admit that business capacity has to be paid for?—Yes, but there are other considerations.

In fact you do not see very much opening for co-operative sale societies?—No.

Professor Batheja : You do not think the *beparis* resort to bad tricks in dealing with the *raiya*s?—Not much.

Are there any forced sales?—No.

There is no use of false weights?—I do not think so. Not in the *dehat*.

Are you speaking from your personal experience?—Yes.

Is the *raiya*t informed of the market prices in Ranchi or other centres?—Yes.

Does he require any storing facilities with a view to get better prices?—The *raiya*t has not got much to sell. The majority sell only a small quantity to obtain oil, salt and things of the kind. The amount that is exported from Ranchi is very little indeed. I know of many places where the people have for two months only one meal every other day.

Do you think they are not producing as much as they could?—Surely many improvements can be made, but the holdings are small and it is difficult for them to spend much money on manure and to go in for improvements.

Mr. Hodge : Do you know of any case where the *raiya*t has to pay something over and above the market rate in the way of commission?—I do not know.

Professor Batheja : Are any facilities required for marketing lac?—That may be. But the difficulty is that if you store lac you may have a good amount of loss. Some part of it may be spoiled and the loss in weight is very great.

Chairman : Do you think it is advisable to take the lac to the market as soon as it is gathered?—Yes.

Professor Batheja : Does your bank at any time advance money to cultivators for brood lac?—No.

We have heard that when the lac crop is not very good the cultivator is put to some difficulty for buying brood lac. Have your members ever experienced such a difficulty?—No. The people who are lac cultivators make a considerable profit.

You think that those hoards you spoke of are the result of profits of lac cultivation?—Yes.

How do you induce these men to deposit money and make better profits?—The rich do not deposit their money in our bank they do not care to make more money.

Do they trust Government post-offices?—No. Some of them bought postal cash certificates during the War.

Chairman : Do they not buy them now?—No.

Why?—They said at that time that they were helping the "Sarkar".

The fact that for every Rs. 7-12-0 they got Rs. 10 did not strike them to be a good scheme?—No.

Do you think for example when there was a good lac season special propaganda for buying postal cash certificates in the area where the profits have been large would have any considerable effect?—The mufassal people who have some money do not desire to earn more. Those living in Ranchi desire to have more and more. The village people do not know what to do with the money and some of them only deposit in the bank.

Professor Batheja : Do you think the indebtedness, on the whole, is increasing as the price of land increases?—Yes.

Chairman : Do you think that Rs. 15 lakhs of indebtedness can be carried as easily as Rs. 8 lakhs was 25 years ago?—I could not say so.

Is there any real increase in the amount of indebtedness?—The amount of land which is mortgaged has surely increased considerably.

Cannot this increase of indebtedness be explained by the increase in the value of holdings in the last twenty years?—I am doubtful. I could not say.

B. B. Dhandhanua : You say that one *pauwa* of land yields a crop worth Rs. 60. Is that gross or net?—It is a supposition for the purpose of illustration. It always differs from village to village and according to the quality of land.

Mr. Hodge : You say that co-operative banks are in need of a good bank in which to keep their current account and short-term deposits. Will you kindly explain this?—Those who are in charge of co-operative banks must be as prudent as can be. In Ranchi we have only the Chota Nagpur Banking Association.

Have you got any current accounts opened with the post-office?—No. I had and I found it very troublesome.

Chairman : Would it not be advantageous to the assistants in charge of your stations if they could keep current accounts with the local post-office?—If they could obtain silver at the local post-office, it would be advantageous.

If the post-offices undertake to keep current accounts, have you any doubt that they would not provide cash in whatever form was most convenient to their customers?—Silver is required and I doubt whether the post-offices could be supplied with it.

It would be a convenience if they could provide silver?—Yes.

Instead of keeping the cash required for meeting rather urgent loans in the safe in the Father's house the post-office would be ready to provide money on comparatively short notice?—If that could be done it would be a great help. Up to now we follow this system : Each Father has an account in Ranchi and we have only to credit and debit these accounts.

Have you adequate arrangements for remittance?—For our bank there is no special difficulty.

How are repayments made?—They are paid in the stations and I take from the account of the station here in Ranchi.

Professor Batheja: How is any surplus remitted?—There is an account going on or if necessary money is sent by insured letter.

Do you think the public has some difficulty in dealing with the post-offices?—Yes.

Is that due to inefficiency or to the dishonesty of the staff?—It is due to inefficiency, I think.

Do you know whether the post-office clerks try to make money out of the ignorant public?—I have never heard anything as regards deposits.

Chairman: Could you give us more information about the *dhan* stores?—I do not keep any list here in our office.

What do you call them?—*Dhan golas*.

How many *dhan golas* are there in Ranchi?—I think about 200 to 300.

Where did the stock originally come from?—From the people for instance. In village Matagara each villager contributed one maund of *dhan*. All those who had given the *dhan* became members. Then slowly with the profits they increased their fund. Every year the members contributed half a maund or one maund again to the capital and they never took anything from the capital as profit. Now they possess Rs. 2,000 and there are sixteen members.

Is each *gola* organised entirely separate from any other *gola*?—Yes.

Is there any extension of membership?—I think there is.

Do they lend out on interest?—Yes.

What is the interest charged?—A small interest is taken from the members. For seeds to the members very often no interest is charged. If the loan is given for more than six months 25 per cent. is charged.

Is there any sort of memorandum which explains the working of these *golas*?—Each one has got its own form of working. Sometimes the interest taken is 25 per cent. from the members and 50 per cent. from non-members in *dhan*.

Is that paid immediately after harvest?—Yes for it is paid in *dhan* generally.

Is the interest carried over a year? The rate of interest for seed is lower still?—Yes. It is lower than 25 per cent.

Mr. Hodge: Do they ever sell?—Yes if they have got more than they can store, they have to sell.

What do they do with the money?—They lend it out. No one who is lending money is allowed to take a loan from our bank unless he lends money at the same rate as we do.

Chairman: I understand that *dhan* is lent out fairly considerably to non-members?—Yes.

And they have to pay a higher rate of interest?—Yes.

Could not they become members by any means?—Often enough the original members do not care to admit new members—and we do not interfere lest dissension arise among the members.

Mr. Hodge : Is there still a large demand for grain loans?—Not very large but surely there is a demand especially after a bad year.

Chairman : Has there been a considerable extension of these grain *gola* system in Ranchi within the last ten years or so?—I could not say for certain. We have no records here.

Do they build their own store houses?—They store the *dhan* in their houses.

It is not necessary to store them in one place?—No.

Mr. Hodge : Is there any special man in charge of these?—The *punches* are in charge of them.

Chairman : Who keeps the accounts?—The *punches*.

Mr. Hodge : No capital is needed beyond the deposits?—No.

Professor Batheja : Is any interest paid on the deposits of grain?—No. Those who have contributed to the *gola* have become members and can ~~borrow~~ borrow at a lower rate of interest.

Chairman : Have they ever done anything for the village itself as a result of their *dhan gola* such as building of a school or things like that?—In some places only they have done so. There are several big schools built by them.

What is the advantage that the non-member gets from such a grain *gola*? Can he not borrow at 50 per cent. from somebody else?—He can but probably not so easily. He gets extension of time from the *dhan gola* which he cannot get from the *mahajan*.

Mr. Hodge : Do you know of any store *gola*?—I do not know of any store *gola* here. In Bengal there are such *golas* where they store rice and wait for an opportunity to sell at a good rate. Here they do not store rice or *dhan*.

Professor Batheja : Are there any *mahajans* or *beparis* having large stocks of grain?—I think there are some in Ranchi.

Do not these *beparis* have some *golas* of their own where they may store their stocks?—May be, I do not know.

Chairman : You give us an estimate of indebtedness at Rs. 60 per household. Would you be surprised to hear if it is Rs. 100?—I would rather say Rs. 40.

But that is not based on any statistics?—Enquiries were made in many villages which I knew. I counted the indebtedness and consider it to be about Rs. 40.

Mr. Hodge : How would you suggest that the financial resources of this district could be utilised?—The confidence of the people should be obtained so as to induce them to offer their economies for the co-operative movement—which will be more of a success in the district when the necessary funds are obtained from the district.

Professor Batheja : I gather that you are not quite satisfied with the work of the co-operative societies in this area?—Not in general. The tendency is to lend money too easily and too much money.

With too little supervision?—Yes and too many years are given to repay the money.

Mr. Hodge : The evil is that too much money is given?—Yes.

Would you say that money given at 18 per cent. was easily given? Would you call that cheap credit?—No. But loans are obtained too easily.

Mr. H. GRAHAM, I.C.S., Commissioner of Income-tax, Bihar and Orissa.

Statement showing the capital expenses and profits of money-orders in Bihar and Orissa.

Name of District.	Number of Bankers.	Capital estimated to be employed	Estimated interest.	Expenses incurred in earning that interest.	Net interest.	Relation of column 7 to 4 expressed as percentage.	Business of an average money lender.
PATNA RANGE.		Rs.	Rs.	Rs.	Rs.		
Patna .. {	Urban 50	18,72,080	2,24,640	18,500	2,11,140	11.3	37,441.6
	Rural 250	34,15,218	1,09,824	24,588	3,85,236	11.3	13,660.8
	300	52,87,298	3,34,464	38,088	5,96,376	11.3	17,624.3
Shahabad .. {	Urban 66	23,20,032	2,79,600	8,382	2,71,218	11.7	35,152.0
	Rural 160	20,48,372	2,45,808	14,748	2,31,060	11.3	12,802.3
	226	43,68,404	5,25,408	23,130	5,02,278	11.5	19,329.2
Bhagalpur .. {	Urban 55	1,00,00,000	9,65,000	19,000	9,46,000	8.9	1,92,727.2
	Rural 385	1,39,00,000	12,63,000	25,000	12,38,000	8.9	36,103.9
	440	2,45,00,000	22,28,000	44,000	21,84,000	8.9	55,681.8
Monghyr .. {	Urban 49	51,00,000	5,70,000	..	5,70,000	11.2	1,04,081.6
	Rural 600	49,00,000	7,00,000	..	7,00,000	14.3	8,166.6
	649	1,00,00,000	12,70,000	..	12,70,000	12.7	15,408.3
Purnea .. {	Urban 6	2,66,384	31,825	7,875	23,950	8.9	44,397.3
	Rural 37	21,95,373	3,48,509	87,125	2,61,384	11.9	59,334.4
	43	24,61,757	3,80,334	95,000	2,85,334	11.6	57,250.2
Muzaffarpur .. {	Urban 41	26,97,646	3,87,113	..	3,87,113	14.4	65,796.2
	Rural 146	28,66,120	4,29,920	..	4,29,920	14.9	19,630.9
	187	55,63,766	8,17,033	..	8,17,033	14.6	29,752.3
Darbhanga .. {	Urban 13	1,64,68,350	16,46,835	1,64,683	14,82,152	9.0	12,66,796.2
	Rural 135	84,28,870	8,42,887	84,288	7,58,599	9.0	62,436.1
	148	2,48,97,220	24,89,722	2,48,971	22,40,751	9.0	1,68,224.5
Champaran .. {	Urban 94	15,83,300	1,90,000	15,200	1,74,800	11.0	16,843.6
	Rural 121	9,62,100	1,15,452	9,236	1,06,216	11.0	7,951.2
	215	25,45,400	3,05,452	24,436	2,81,016	11.0	11,837.6

Name of District	Number of Bankers.	Capital estimated to be employed.	Estimated interest.	Expenses incurred in earning that interest.	Net interest	Ratio of column 7 to 4 expressed as a percentage.	Business of an average money-lender.
PATNA RANGE.							
<i>—consolid.</i>							
Saran .. {	Urban 6	3,83,015	34,269	..	34,269	8.9	63,835.8
	Rural 57	25,25,813	3,15,272	..	3,15,272	12.5	44,312.2
	63	29,08,828	3,49,541	..	3,49,541	12.0	46,171.8
Grand Total Patna Range. {	Urban 380	4,12,90,807	43,29,282	2,28,640	41,00,642	9.9	1,09,712.6
	Rural 1,891	4,12,41,366	46,70,672	2,44,985	44,25,687	10.7	21,809.5
	2,271	8,25,32,173	89,99,954	4,73,625	85,26,329	10.3	36,341.9
RANCHI RANGE							
Gaya .. {	Urban 68	24,16,000	3,17,653	15,880	3,01,773	12.5	35,529.4
	Rural 71	11,20,000	1,58,827	7,940	1,50,887	13.5	15,774.6
	139	35,36,000	4,76,480	23,820	4,52,660	12.8	25,438.9
Palamau .. {	Urban 11	1,91,000	30,600	1,530	29,070	15.2	17,363.5
	Rural 32	2,53,000	40,020	2,200	37,820	14.9	7,906.3
	43	4,44,000	70,620	3,730	66,890	15.0	10,325.6
Cuttack .. {	Urban 29	18,21,000	1,61,400	8,030	1,53,370	8.4	62,793.1
	Rural 91	19,38,000	1,97,100	9,855	1,87,245	9.6	21,296.7
	120	37,59,000	3,58,500	17,885	3,40,615	9.0	31,325.0
Puri .. {	Urban 30	21,07,000	1,81,700	9,085	1,72,615	8.2	70,233.3
	Rural 67	16,32,000	1,57,500	7,870	1,49,630	9.2	24,358.2
	97	37,39,000	3,39,200	16,955	3,22,245	8.9	37,514.5
Balasore .. {	Urban 2	1,40,000	4,000	200	3,800	2.7	70,000.0
	Rural 24	2,65,000	27,400	1,370	26,030	9.8	11,041.8
	26	4,05,000	31,400	1,570	29,830	7.4	15,577.9
Ranchi .. {	Urban 7	8,00,000	1,00,000	..	1,00,000	12.5	1,14,285.7
	Rural 34	2,70,000	90,000	..	90,000	33.3	7,941.2
	41	10,70,000	1,90,000	..	1,90,000	17.7	18,295.9
Manbhum (Sadr) {	Urban 7	10,00,000	1,25,000	..	1,25,000	12.5	1,42,857.1
	Rural 22	1,89,000	63,000	..	63,000	33.3	8,590.9
	29	11,89,000	1,88,000	..	1,88,000	15.8	41,000
Santal Parganas {	Urban 91	15,00,000	2,20,000	11,000	2,09,000	13.9	16,483.5
	Rural 189	35,00,000	5,50,000	27,500	5,22,500	14.9	18,518.5
	280	50,00,000	7,70,000	38,500	7,31,500	14.4	17,857.1
Dhanbad .. {	Urban 14	2,92,332	24,361	..	24,361	8.3	20,880.8
	Rural 21	28,26,320	68,860	..	68,860	2.4	1,34,586.7
	35	31,18,652	93,221	..	93,221	2.9	89,104.3
Singhbhum .. {	Urban 10	7,88,000	70,759	..	70,759	8.9	78,800.0
	Rural 16	1,00,000	8,000	..	8,000	8.0	6,250.0
	26	8,88,000	78,759	..	78,759	8.9	34,153.8

Name of District.	Number of Bankers.	Capital estimated to be employed.	Estimated interest.	Expenses incurred in earning that interest.	Net interest.	Relation of column 7 to 4 expressed as a percentage.	Business of an average money-lender.
RANCHI RANGE <i>—concid.</i>		Rs.	Rs.	Rs.	Rs.		
Sambalpur .. {	Urban 7	10,00,000	99,523	240	99,283	9.9	1,42,857.1
	Rural 17	80,000	6,000	..	6,000	7.5	4,705.9
	24	10,80,000	1,05,523	240	1,05,283	9.9	45,000.0
Hazaribagh .. {	Urban 30	12,82,688	1,52,087	3,042	1,49,045	11.6	42,756.3
	Rural 55	11,87,552	1,42,507	2,850	1,39,657	11.8	21,591.8
	85	24,70,240	2,94,594	5,892	2,88,702	11.6	29,061.5
Total (Ranchi Range). {	Urban 306	1,33,38,020	14,87,083	49,007	14,38,076	10.7	43,588.3
	Rural 639	1,33,60,972	15,09,214	59,585	14,49,629	10.8	20,909.0
	945	2,66,98,992	29,96,297	1,08,592	28,87,705	10.8	28,252.8
Provincial Total {	Urban 686	5,46,28,827	58,16,365	2,77,647	55,38,718	10.1	79,633.8
	Rural 2,530	5,46,02,738	61,79,886	3,04,570	58,75,316	10.8	21,582.1
	3,216	10,92,31,565	1,19,96,251	5,82,217	1,14,14,034	10.4	33,965.0

Oral Evidence.

Chairman : Mr. Graham, you are the Commissioner of Income-tax in Bihar and Orissa?—Yes.

For how long?—Since March 11th of last year.

And previous to that your experience was in Bengal?—Yes.

We are very much obliged to you for the statistics you have furnished us and we have a few questions to ask in order to elucidate them. In column 3 you have given us the number of bankers. Could you tell us what your definition of bankers is?—I asked the Income-tax Officers in this province to collect information according to the wording of your letter.

So, may I take it that the term “banker” includes every person who lends money?—Yes, any individual or private firm which receives deposits and lends out money or deals in *hundis*, including the village money-lenders.

It includes not only the people who both receive deposits and lend money but also the people who merely lend money without receiving deposits?—Yes.

May we take it that you are certain on that point?—I sent out the requisition to all Income-tax Officers with your letter as the basis.

I suppose you have had no further enquiries?—There was no time to do so, as this was all done in a hurry just before Christmas.

I suppose none of your Income-tax Officers asked you whether the money-lender pure and simple should be included or not?—No. I thought the scope of the question included all persons and firms dealing in deposits or lending money whether they dealt in *hundis* or not and I believe the Income-tax Officers have also taken the same interpretation.

I take it that when you organise the income-tax business you take the money-lending incomes altogether without distinction as to whether the income is derived entirely from the personal capital of the money-lender or partly from the deposits from outsiders?—Yes, that is so.

The statistics are for the income-tax year ending March 1929. Is that right?—They represent the year of assessment 1928-29. Roughly they are for income accruing in the financial year 1927-28.

Then in the letter addressed to you by the Central Board of Revenue they have suggested that interest paid on deposits and other expenses should be calculated as far as possible. I suppose those items given in column 6 represent that, all lumped together?—Yes. I do not think it is possible to give separate figures so far as this province is concerned.

Have you any information at all about the rate of interest paid on deposits?—No, I have not much experience of money-lenders' books. I think it would be well for you to get these details from the Income-tax Officers or the Assistant Commissioners of Income-tax, as they deal with the books of the money-lenders in detail.

Supposing we want more particulars about this, which particular Income-tax Officers would you suggest that we should refer to? Or would it be better to address the two Assistant Commissioners of Income-tax for the two ranges?—I think it is better to refer this question to the Income-tax Officers, because they are the people who have opportunities of examining the books maintained by the money-lenders. The Assistant Commissioners look into them only in cases of appeal.

I hope you will have no objection to our addressing them direct to collect this information?—No, I have no objection.

Professor Batheja: Have not the Assistant Commissioners of Income-tax experience of district work?—As I have already said, it is better to get this information from the Income-tax Officers direct. However, I think the Assistant Commissioner of Patna (Mr. H. D. Chatterjea) would be a competent witness.

Chairman: Another thing which I notice is that letter from the Secretary of the Central Board of Revenue is that it was suggested there should be a separate tabulation of net interest?—I do not think it is possible to get at that, and the Income-tax Officers have not done that.

Ordinarily speaking, you think they would not have to do so?—The fact is, generally speaking, these money-lenders do not produce their books of account.

Can we take it then that the figures which you have given are confined to money-lending business and that whenever the same man is both a money-lender and a trader, his trading profits have been separated out with a considerable degree of accuracy?—Yes.

Is it your experience that there is a great deal of mixed business of that kind?—My experience is that most business people do banking business in a sense.

It must be extremely difficult to separate the money-lending income from the trading income?—Yes, the Income-tax Officers experience difficulty that way.

Column 7 represents the figure on which income-tax is charged on the estimated interest?—Yes.

Is it possible to get any kind of estimate of the losses suffered by these money-lenders through bad debts?—I think it would be very difficult to do so, because many of them would not produce their books.

You have given the estimated capital of the money-lenders of these districts and it comes to something between ten and eleven crores of rupees. Could you give us any idea what amount is deducted from the books of accounts of the money-lenders and what amount represents the estimates of the Income-tax Officers?—I think the Income-tax Officers will be in a better position to tell you that.

Professor Batheja : Will not these money-lenders make a claim for exemption because of bad debts?—Yes, they do.

Chairman : In Dhanbad the percentage of net profit on the capital is estimated at only 2.9. I suppose that will be largely due to bad debts?—It is highly likely, but I cannot say that definitely.

Is there any district which you have recently inspected on which we could base our questions to elicit further information?—I have never inspected any district with particular attention to money-lending.

Professor Batheja : Is income-tax paid by the joint stock banks included in these figures?—No, these figures represent only indigenous banks.

Chairman : From the figures before us could you indicate in any way whether the business of money-lending in a particular district is concentrated in a few hands or is widely dispersed?—I cannot tell you definitely, but I think money-lending is mostly widely dispersed.

I take it that the figures in any particular district would not materially change if instead of having 30 comparatively small money-lenders you had ten big ones?—Yes, that is so.

The average return on capital in the Ranchi range has been worked out in our office at 11.8 and in the Patna range at 10.2, so

that we can take it I think that the average is about 11 per cent. in this province?—Yes.

That means that a working capital of Rs. 22,000 is the limit fixed below which you do not assess for income-tax purposes?—Yes.

But you will agree that there must be a great number of people who lend money and whose working capital does not amount to that figure?—Yes, there should be a large body of such people.

Professor Batheja : And possibly a good many must have escaped taxation?—I entirely agree.

Chairman : Do you think you probably get most of the urban money-lenders who ought to come in?—I should think so.

Column 4 “capital estimated to be employed” is I take it the working capital including both the man’s own money and anything he borrows in any possible way?—I think so.

Do you think that the net interest as worked out by us is likely to be reasonably correct, or is it very largely a surmise?—There is a great difference in the estimates of expenses. The Income-tax Officer at Purnea has taken the expenses as 25 per cent. of the income, but the Patna Range Assistant Commissioner of Income-tax suggests a uniform rate of 5 per cent. I think the latter is more likely to be correct as these money-lenders have not much by way of working expenses.

Professor Batheja : What about their bad debts?—Reductions on account of bad debts would not be included under expenses.

Chairman : Then your estimated interest is interest less bad debts?—Yes.

R. B. Jalan : I do not think so. Have you got anything on record to say that?—No, but I think the estimated interest has been calculated by the Income-tax Officers less bad debts.

Professor Batheja : Is the money-lending of big zamindars taken into consideration here?—It should have been taken into consideration.

(Discussion followed on the figures put forward in the statistics and the witness agreed to have certain figures verified by referring them back to the Income-tax Officers who supplied them.)

Thursday, January 9, 1930

RANCHI.

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. HODGE.

Rai Bahadur RADHA KRISHNA JALAN.

Babu TARA PARASANNA GHOSE, Honorary Organiser, Co-operative Societies, Ranchi.

Replies to the Questionnaire.

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. (a) Agriculturists living in villages of Ranchi district generally borrow for expenses during cultivation from Kabulis, Nagas or Gosains (a class of money-lenders who come from the district of Shahabad in Bihar and Orissa) and also from the village money-lender in cash. Paddy they borrow from village *mahajans* or from *mahajans* living in neighbouring villages. These *mahajans* generally belong to *Teli*, *Bania*, *Suri* and *Sarak* castes. Some well-to-do aborigines and zamindars also carry on the business of lending money and paddy to the village people but their number is few. Where there is a co-operative society in the village the people borrow from the society.

(b) For buying cattle the agriculturist generally borrows either from the Kabulis or from the village *mahajans*. For acquiring new lands or for reclaiming of lands for construction of bundhs and digging wells agriculturists in our district do not generally borrow from the *mahajans*. In lac-growing area those people who are thrifty save something for acquiring new lands and for making permanent improvements. Those people who go to tea gardens and to Bengal to work as labourers when they come back they bring with them some money, with which they acquire new lands or make permanent improvements to their lands. But where there are co-operative societies, members borrow from their societies for capital and permanent improvements as they get the loans at a cheap rate of interest.

(c) When the monsoon fails and yields of agriculturist lands are not sufficient for their family's food for the whole year they generally borrow paddy from the village *mahajan* except in such villages where there are co-operative grain *golas*, which are very few in number.

For paying land revenue they generally borrow from the Kabulis and Nagas if there is not a co-operative society in their village.

For meeting cost of litigation and for marriage expenses they generally give their lands in *zarpeshqi* (mortgage with possession) for five years to the village *mahajan* or to a well-to-do neighbour.

The Nagas generally advance loan for meeting cultivation expenses in the month of *Asarh* (July). The loan to be repaid in *Aghan* (December). For these six months they charge 50 per cent. interest, i.e., if they advance Re. 1 in *Asarh* they will realize Rs. 1-8-0 from the borrower in *Aghan*. Moreover, he will take his food from him when he will come in *Aghan* to realize his dues. They maintain a rough account book in which the signature or the thumb impressions of the borrowers are taken. No other security is given. The Kabulis advance loans for all purposes. They generally charge two annas per rupee per month, i.e., Rs. 150 per cent. per annum. I know of a case where a Kabuli was charging one pice per diem per rupee as interest for a small amount advanced to a village blacksmith. The loans are generally taken with the promise to pay at the harvesting time. If it is not done the interest is compounded. The Kabulis also maintain a sort of rough account book in which the signature or thumb impressions of the borrowers are taken.

The village *mahajans*' rate of interest for small sums generally is one anna per rupee per month, but also compoundable if it remains outstanding at the end of the year. When they advance large sums they generally take the borrower's lands in *zarpeshqi* for five years or *bhugut bandha* for seven years.

Village *mahajans* when they advance paddy loans they never charge less than 50 per cent. interest for six months and sometimes 100 per cent. interest when they advance loans for seed purposes. Interest is compoundable if not paid just after the harvesting season.

Where there are co-operative societies members get loans at the rate of 18 per cent. per annum. Only in societies affiliated to the Khunti Co-operative Union Bank different rates of interest are charged for loans for three different purposes. For redemption of mortgaged lands $12\frac{1}{2}$ per cent. when the amount of loan is over Rs. 200, for land improvements $7\frac{1}{2}$ per cent. per annum and for general purposes $18\frac{3}{4}$ per cent. per annum. In the societies belonging to the Roman Catholic Mission the rate of interest is $12\frac{1}{2}$ per cent. per annum for all classes of loans.

The co-operative societies advance loans for general purposes, i.e., for buying cattle, seed, meeting cultivation expenses, etc., for a period from one to three years. For redemption of lands and for improvements of lands for a period ranging from five to fifteen years. When long-term loans are advanced the lands of the members are generally taken in

blugut by the society as collateral security though the member is allowed to cultivate his land and continues to do so if he pays his *kists* regularly, otherwise the lands are taken away from him and given to one of the members to cultivate if he agrees to pay the *kists* regularly.

Where there is a co-operative grain *gola* or a grain branch attached to the society, the members get paddy loans from their societies. The interest charged is 25 per cent. per annum.

Part played by the Government in our district in agricultural finance, so far as I know, is very insignificant. Amount of *takavi* loans advanced to the agricultural population from time to time is very small and inadequate. Government has given some money to one or two central banks for advancing to the members of co-operative societies at low rate of interest for land improvement but the amount is very insignificant.

Government in an indirect way renders help to agricultural finance through the Imperial Bank which advances to the Provincial Co-operative Bank which in its turn grants loans and allows cash credit to the Central Co-operative Banks scattered all over the province which are organized to finance the agricultural population of the province through their affiliated village co-operative credit societies.

Co-operative banks—from the Provincial Bank to the Village Co-operative Credit Societies—play a prominent part in agricultural finance. Members of village co-operative credit societies mainly depend on their societies to finance them for meeting expenses during cultivation season, for buying cattle and seeds and for making permanent improvements.

Professional money-lenders such as Nagas, Kabulis and other classes of village *mahajans* mentioned above take also a prominent part in financing the agricultural population but their rate of interest is so high that agriculture cannot be made to pay after paying interest at such a high rate on borrowed capital. Also the dealing of this class of money-lenders with their clientele are not always fair. Merchants or *baniyas* living in the rural areas also advance money on *chara* system to the cultivators for meeting their expenses during cultivation. They advance money on condition that the borrower will have to sell his crops to the creditor just after the harvesting is over at a rate fixed by him. That is if the paddy is selling at the rate of 20 seers per rupee the debtors will have to give the creditors paddy at the rate of 25 seers per rupee or so for the amount advanced to him in cultivation time, so, the *baniyas* by this system realize from the borrower at least 25 per cent. interest on the loan advanced for a period of six months only.

The Nagas and Kabulis we have heard get their capital from private bankers at a comparatively less rate of interest and invest the same at a rate four times that of the rate at which they borrow. We have further heard that some of the Nagas who come from Shahabad district are members of co-operative societies of that district. They

borrow money from their society and invest in Chota Nagpur at a high rate of interest.

In Ranchi district there are about 25 thanas. Each thana consists of averagely 200 villages. So that there are about 5,000 villages in this district. On an average fifty families live in each village so there are about 250,000 families living in this district. The people of Chota Nagpur are so backward that they do not know how to utilize their borrowed capital in the most profitable manner and they are improvident and unthrifty so it is not always safe to finance them freely. We should proceed very cautiously in financing the rural population or we will do more harm than good to them. Considering all these facts, if we can provide Rs. 100 for meeting the needs of each family on an average, the total amount that will be required for financing the agricultural population of our district will come up to Rs. 2,50,00,000. Present indebtedness of the agricultural population of the district will not be less than Rs. 50,00,000.

The best way of financing the agricultural population is to finance them through their properly-organized co-operative societies. Professional money-lenders' rate of interest is so high that, as I have already **mentioned**, agricultural industry cannot pay after giving so high rate of interest on the borrowed capital. Moreover, professional money-lenders' dealing with the cultivator class are not always fair.

The rate of interest charged by the co-operative societies at present is 18½ per cent. per annum which, though less than the rate charged by the village money-lenders is still high when we consider that loans are taken for financing an industry of which the profit or loss depends so much upon the vagaries of monsoon in India. I therefore beg to suggest that Government should find cheap money for financing the agricultural industry of the country through the well-organised co-operative village societies.

The interest at which the cultivator should get loans should never be more than Rs. 9-6-0 per cent. per annum for general purposes and for land improvement and land redemption it should be still less—6½ per cent. to 7½ per cent. per annum.

Takavi loans and land improvement loans advanced to the cultivators from time to time by Government, though at a cheap rate of interest, is not sufficient to meet all the needs of the cultivators. Moreover, there is no one to see that the amount advanced by the Government is utilized by the cultivators in the most profitable manner. I therefore suggest that *takavi* and land improvement loans should be given through the co-operative societies in those areas where there are co-operative societies. Co-operative workers will be able to guide the members to utilize their borrowed capital in proper manner and profitable way.

Delay in sanctioning loans to the affiliated societies by the Central Co-operative Banks, specially in the cultivation season cause great inconvenience to the agricultural class and sometimes drive them to the doors of the village *mahajans*. I therefore beg to suggest that

these Co-operative Central Banks should grant cash credit up to a certain amount after considering the total *haisiyat* of the society and finding out the approximate amount that will be required by the members to meet the expenses of cultivation. If this system is introduced there will be no delay in getting the loans from the central banks and the affiliated societies will be able to meet the needs of their members promptly.

2. Principal crops in our district are paddy, *urid* (pulse), *sirguja* (oil-seed) and lac.

These pass while reaching from the producers to consumers through the hands of several middlemen. The cultivators generally carry their produce to the local village market for selling their produce. The first middleman that buys the crops from the cultivators direct is the *paikar*. He sells them to the petty merchant or *bania* who keeps some cart for carrying goods from the village to the town. Generally these village *paikars* buy the crops from the producers as an agent of these *banias* who allow the *paikar* some profit in return to his labour. The petty dealers who carry the goods to the town sell them to big merchants through the *arhatias*. The big merchants either export these goods or stock them to sell in the local market when the prices advance to petty *banias* and they in turn sell them to the consumers. From the purchase from the producers to the customers all the middlemen through whom these goods pass keep some profit for them. So we find that rice which producers sell at the rate of 10 seers per rupee in the village market in December is purchased by the consumers at the rate of 5 seers per rupee in June and July.

In case of lac crop, there are some village *paikars* who buy the crop from the growers and take them to the local village market for sale. The owners of lac factories employ some *paikars* to buy the crops from the village *paikars* at the village market. Factory owners then sell their finished products to big Calcutta merchants who also export them to foreign countries.

If producers' co-operative sale society can be organized in rural areas and consumers' purchase societies can be organized in urban areas much of the money that goes to the middlemen's pocket can be saved which will benefit both the producers and consumers. But before starting such societies much training in co-operative principles and management will be necessary for the members otherwise all efforts will be fruitless. Societies of this class organized by the Co-operative Department of this province have all failed, for want of proper supervision and training. If Government can maintain adequate staff for giving training to the members and for supervision of such societies only then such societies should be organized, otherwise not.

If producers' co-operative societies could be organized and run successfully separate central banks will have to be organized in different centres for financing these purchase and sale societies in the marketing season at a low rate of interest.

The existing condition is that the big merchants living in the town advances money directly or through the *arhatias* to the petty *bantias* of the village to buy the crops from them. The *bantias* in their turn make advances to the *paikars* who buy for them from the village markets. The big merchant of the town either gets his capital from some private banks or from a joint stock bank.

3. *Raiyati* lands in Chota Nagpur are not saleable or transferable except in execution of rent decrees and in cases when both the vendor and the vendee belong to the same caste or race and reside in the same village.

Landlord's *khas* lands, which is always good class paddy field (*don*), sell for Rs. 300 to Rs. 500 per acre and sometimes even more by private negotiation. Landlord's *khas* uplands, where generally early paddy (*gora dhan*), *rahar*, *sirguja*, *urid*, *marua*, etc., are cultivated sell from Rs. 100 to Rs. 50 per acre.

Waste lands can be had from Rs. 30 to Rs. 15 per acre.

In the event of sale by civil court decrees the land generally fetches very low prices, for the bidders do not exactly know if there is much **incombrance** on the property or not and therefore their bids are far below the fair price of the property. But when the lands are sold by the court in execution of rent decrees, as they are sold then free of all encumbrance, they fetch a somewhat little better price.

Raiyati lands when sold by private negotiation do not fetch as much price as that of the landlord's land. It is generally two-thirds of what landlords get for their *khas* lands. This is because for the *raiayati* lands purchasers are limited. They must be of the same caste or race and resident of the same village.

Raiyati lands in Chota Nagpur are not sold in execution of civil court decrees, when sold in execution of rent dues they do not always fetch a fair price.

In Chota Nagpur landlords can mortgage their lands for any period. But *raiayats* can only mortgage lands with possession (*zarpehgi*) for five years only. They can also give their lands in *bhugut*, that is mortgaging lands with possession to creditors for seven years whose principal amount advanced and interest on it will be considered repaid within the time of the *bhugut* from the yield of the land mortgaged to the creditor and he will have to give up the possession of the land after the period of the *bhugut* expires. A *raiayat* can give his land in *bhugut* only for seven years except to a co-operative society of which he is a member when he can give for 15 years.

There is no land mortgage bank in this province. I do not know if there is any agricultural bank. Most probably there is none. In Chota Nagpur there is the Chota Nagpur Banking Association, Limited, which grants long-term credit generally to the town people by taking their landed properties or houses in mortgage.

We have in Chota Nagpur a few Central Co-operative Banks which grant long-term credits to the agricultural population through their affiliated village societies.

The Co-operative Central Banks generally raise their capital by receiving local deposits. They also have cash credit accounts with the Provincial Co-operative Bank and also take loans from the said bank.

Chota Nagpur Banking Association, Limited, as far as I know, raises its capital by receiving local deposits. The tenants can get long-term loan from their village co-operative societies if the central banks can advance long-term loans to their affiliated societies. The central banks can do this if they can get in their turn long-term loans from the Provincial Bank. This the Provincial Bank can do if it is allowed to issue debentures or if it can get long-term loans at a very low rate of interest from a State bank.

No other organization will be more suitable than the village co-operative societies for financing the agricultural population of the country. There is one defect and that is that they cannot always grant long-term loans. If this defect can be remedied they will be of great help in freeing the agricultural people from their chronic indebtedness.

For financing the landlords it will be necessary to establish land mortgage banks in different centres with one apex bank. Both petty and big landlords in Chota Nagpur have to borrow at a very high rate of interest by mortgaging their zamindari property. I know of cases where the local zamindars have to borrow, agreeing to pay interest at the rate of 36 per cent. per annum. The rate of interest is never less than 24 per cent. per annum. There is no bank in the district for financing the landlords at a reasonable rate of interest. If land mortgage banks are established in Chota Nagpur for financing the landlords, then Chota Nagpur Encumbered Estates Act will have to be amended.

4. (a) Generally, at the time of the Survey and Settlement Operations when preparing the records of the agricultural lands, the lands belonging to one or more near relations, such as brothers, uncles and nephews, are entered in one *parcha*, with mention in the remarks column, which plot is in possession of which person. This creates some confusion. It would be better if separate *parchas* are prepared for lands in possession of each instead of entering them in the same *parcha*.

(b) Land mortgage bank, which should be organized on co-operative basis and should be allowed to apply to the Registrar, Co-operative Societies, for obtaining an award against the defaulting members in the same way as the co-operative societies are doing now for obtaining an award against their members. Then, instead of the slow procedure of realizing the award, by executing the same through the civil court the banks may be allowed to realize the awarded amount by certificate procedure.

(c) As in the case with the co-operative societies at present the land mortgage banks should also be exempted from stamp duty and

registration fees for sometime and then charged at half rates. The copies of the records-of-rights should also be supplied to such institutions at a nominal charge and process fees should also be charged at reduced rates.

The working capital of the proposed land mortgage bank should be derived both from deposits and by issue of debenture bonds. In case an apex bank is established in the province for financing local land mortgage banks the local bank should derive their funds from the central institution. In that case the central institution only should be allowed to issue debenture bonds. The Government should guarantee at the beginning both the principal and interest otherwise the debenture bonds will not be popular and money will not be available at a low rate of interest.

On the managing board of such bank as will be allowed to issue debenture bonds there should be a Government representative at least for sometime until it gains the confidence of both the people and the Government. Its accounts should be checked at least annually by the Government Auditors. A Government officer may also be appointed to fix the value of the security against which the banks will advance loans.

With Government guarantee the bank will be able to raise money at a low (say 4 per cent. to 5 per cent.) rate of interest both under deposits and debenture bonds which will enable them to advance loans at a low rate, say $6\frac{1}{2}$ per cent. to $7\frac{1}{2}$ per cent. Without Government guarantee, they can get fixed deposits at $6\frac{1}{2}$ per cent. per annum as the Co-operative Central Banks are getting now from the public, but it is doubtful whether they will be able to sell their debenture bonds. ~~If these banks have to pay high rate of interest to their depositors they cannot advance money to their clients at less than 9 per cent. per annum and if they cannot raise money by debenture bonds they will not be able to grant long-term credit. If they cannot do this the object with which these banks are to be established will not be attained.~~

5. The total amount of existing indebtedness of our district (Ranchi) alone will not be less than 20 lakhs.

If co-operative workers working in the village, who have already gained the confidence of the rural population and know the village conditions fully well, are engaged to collect the figures, they will be able to do it with reasonable accuracy.

About two-thirds of the amount of debt is with land as security given in mortgage with possession in our district but not always by a registered deed.

The debt is largely due to the professional money-lenders. Where there are co-operative societies debts are also due to the societies.

I have already stated elsewhere about the rate of interest charged by the Kabulis, Nagas and village *mahajans*. Kabulis charge two annas per rupee per month, interest to be compounded after the expiry of

the date of repayment, which is generally within one year. Nagas' charges are 50 per cent. interest for six months. The interest is compounded after the date fixed for repayment. Village *mahajans'* rate of interest is generally one anna and in some special cases half anna per rupee per month. But when good lands are given in mortgage with possession to those people the value of paddy crops which they get in lieu of interest is not more than the amount, in the case if the interest is paid in cash and is calculated at the rate of 9-6-0 per cent. to even $6\frac{1}{4}$ per cent. per annum. It is therefore that the co-operative societies' attempt for redeeming the mortgaged lands of agricultural people always fail. For, these institutions generally advance loans to the agricultural people to redeem their mortgaged lands at the rate of $18\frac{3}{4}$ per cent. to 15/10 per cent. and in some special cases at $12\frac{1}{2}$ per cent. This is higher than what the village *mahajans* get from the yield of the lands given in mortgage to them with possession.

It is true that in our district lands are passing from the hands of farmers to the hands of their creditors. But according to the law, of the land the creditors cannot keep *raiya* lands in their possession for more than five years as *zarpeshgidars* and for seven years as *bhugutbandhadars*.

So long the cultivators' lands are not given in mortgage with possession to the village *mahajans* the incentive to produce more and in a better manner remains but as soon as the land passes into the hands of the *mahajans* as *zarpeshgidars* and *bhugutbandhadars* and the cultivator is made to cultivate the land on *adhbatai* system (half produce) he loses that incentive.

6. Hand-weaving and a little of hand-spinning is the most important subsidiary industry to agriculture in the district of Rauchi. Lac-rearing in some areas is also a very important subsidiary industry.

Co-operative organization for the supply of raw materials and marketing of the finished products can greatly help and encourage the weaving industry. Such organization can also immensely improve the industry by teaching better methods of weaving. The improved products will command a bigger market.

Co-operative lac-growers' association can also be organized for better marketing of their products but much training of the agricultural population will be necessary before they will be able to successfully run such an organization. A few societies could be started for their training under the supervision of the Government officers or co-operative workers for the present.

If the farmer takes up intensive farming, he will never remain unemployed. But for intensive farming he will have to arrange for irrigation and manure which require good deal of capital. If he can get this capital at a low rate of interest not exceeding, say, 9 per cent. and for long-term, it will be possible for him to take up intensive farming.

In Chota Nagpur if construction of systematic high level *bundhs* are taken up it will give employment to the cultivators in their off season and will at the same time immensely improve the agriculture of the country. The land mortgage banks can advance money to the landholders at a low rate of interest on long-term for developing their property by the construction of high level *bundhs*.

7. The Provincial Co-operative Bank which advances loans and grants cash credit to the Central Co-operative Banks of the province has a cash credit account with the Imperial Bank. The Ranchi Central Co-operative Bank has also a cash credit arrangement with the Chota Nagpur Banking Association, Limited. I do not know whether other central banks of the province have any cash credit arrangements with any joint stock banks or indigenous banks.

As I have already mentioned, the loans are not promptly advanced to the societies by the central banks which takes a long time in making necessary enquiries before advancing the loans. Specially in cultivation season this causes great inconvenience to the members. They generally apply for small loans for expenses during cultivation season. If this they do not get promptly their cultivation operations suffer and they have no other alternative but to borrow from the Nagas, Kabulis or village *mahajans* at a very high rate of interest. The remedy I beg to suggest is that the central banks after fully ascertaining the total asset of a society should allow a cash credit to the society not exceeding one-eighth of the total assets of the members. So that the societies can draw on this cash credit (for advancing which the bank will not have to make further enquiries) for promptly meeting the needs of the members during the cultivation season.

At present the central banks financing village societies hesitate in giving long-term credits because the loans they receive from the Provincial Bank is only for five years. Fixed deposits which they receive from the public is also for short-term, i.e., one year, two years, or at the longest three years' notice. Though some of the central banks taking some risk advanced long-term credits to the village societies to enable them in their turn to grant long-term credits to its members, thinking that the fixed deposits are as good as long-term deposits, yet they do it very hesitatingly and they always suffer from a feeling of uneasiness on this account.

The remedy is that the Provincial Co-operative Bank should be allowed to raise money by issuing debentures which will enable them to grant long-term credits to the Central Co-operative Banks at a low rate of interest and these banks in their turn will then be able to grant long-term loans to their affiliated societies. The societies will then be able to advance long-term loans to their members at a low rate of interest for redeeming mortgaged lands, developing agriculture, by digging wells and constructing *bundhs*, by reclaiming waste lands, by buying improved implements and fertilisers. Both for the long-term and short-term credit the rate of interest should be reduced. At present

members of village societies in Chota Nagpur pay $18\frac{1}{2}$ per cent. per annum interest for loans for general purposes, except the members of Roman Catholic Mission Societies who pay $12\frac{1}{2}$ per cent. I have already stated before that success and failure of agriculture in India depend entirely on the vagaries of monsoons. If the monsoon fails the whole business fails. And this is not very uncommon. In some parts of the country too, too much rain causes flood which damages the crops. So, the cultivators' crops are not always assured. Under such circumstances, to make agriculture pay after paying $18\frac{1}{2}$ per cent. per annum interest is almost impossible. We should try to find cheap money for financing the cultivators through their co-operative societies otherwise at the present rate of interest we shall not be able to do much good to them, specially in Chota Nagpur where the yields from the lands are so poor. The members should get short-term loans at the rate of $9\frac{1}{6}$ per cent. per annum interest and long-term loans at $6\frac{1}{4}$ per cent. to $7\frac{1}{2}$ per cent. per annum.

For industrial co-operative societies or stores, etc., rate of interest should be $6\frac{1}{4}$ per cent. to $7\frac{1}{2}$ per cent. per annum. These institutions cannot be made to work effectively and can neither be expected to make profit if they are to pay high rate of interest. I have stated elsewhere that if we can organize co-operative societies in each and every village of our district we shall require at least Rs. 2,50,00,000 to finance the village people.

So far as I know there is no competition between the co-operative banks and joint stock banks in Chota Nagpur. Only in our Central Co-operative Banks the rate of interest allowed to depositors is a bit high, but that does not in any way affect the working of an only Joint Stock Bank which we have in Chota Nagpur.

Both the extension of special exemption of income-tax to genuine co-operative societies and inclusion of debentures issued by Provincial Bank in the list of trustee securities are desirable as they are sure to stimulate the growth of the co-operative movement.

II. INDIGENOUS BANKING.

5. So far as I know in our district indigenous banks do not generally allow long-term credits. The rate of interest which they charge is never less than 18 per cent. rising to 36 per cent. per annum. The indigenous banks as far as I know never allow more than 9 per cent. interest on deposits received by them.

6. If "indigenous bankers" also include professional money-lenders I have already stated in my answer to question no. 1 (c), Part I, what the rate of interest the agricultural community has to pay to these class of creditors. I have also stated elsewhere, where grains are advanced as loans by village *mahajan*, he charges interest at the rate of 50 per cent. for six months and sometimes even cent. per cent. This is compounded if not paid just after harvesting is over.

From my long experience of village conditions in our district I can say with some confidence that the lot of the agricultural population can never be improved by the indigenous banking system. Only cheap and long-term loans advanced through the co-operative organizations can improve the economic condition of the agricultural class. How we can get cheap money I have already stated elsewhere in my replies to other questions.

Reduction in the rate of interest charged would certainly confer a great benefit on the agricultural community but simultaneously with the finding of cheap credit we should educate the agricultural population to broader ideas, teach them better farming, better business and better living and also raise their moral standard. This can only be done by well-directed co-operative movement. If the education part is neglected cheap credit will do more harm than good to the rural population.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. There is only one Joint Stock Bank in Chota Nagpur and a few Co-operative Central Banks for financing the village societies. Over and above this there are indigenous bankers.

Above mentioned banks encourage the investment habit by allowing attractive interest on deposits. Some of the indigenous banks encourage the investment habit by allowing high rate of interest on deposits. The Post Office Savings Bank also attracts deposits from people who have more confidence in Government institutions although the interest allowed is low. All these above-mentioned institutions attract only the urban people to deposit their savings. In rural areas there is no institution except the village co-operative societies for encouraging savings and investment habit among the agricultural population.

In urban area where there are joint stock banks or Co-operative Central Banks the people have full facilities for the investment of their savings. Post Office Savings Bank do not allow the depositors to withdraw their money more than once a week. This system should be changed and depositors should be allowed to draw their money by cheque as they are allowed to do in other banks whenever they like.

In rural areas only where there are co-operative village societies the people have facilities to invest their savings. They seldom invest their savings in Post Office Savings Bank. If co-operative societies are organized in each and every village the rural population will have full facilities for investing their savings. Moreover, the co-operative workers will be of great help in creating the investment habit among the agricultural class.

Yes, the people of India have the habit of investing money in silver and gold, especially the people who are half educated and uneducated. They have not much faith in the banks or indigenous

banks. Moreover they think if they invest in silver and gold they can promptly get ready money by pawning them.

2. I have already stated that postal savings bank ought to afford more facilities to the public. Generally middle class people deposit their savings with postal savings banks. More urban population can be attracted to deposit their money with postal savings bank by raising the rate of interest to the rate paid by the Joint Stock and Co-operative Central Banks in the area and giving more facilities for withdrawal.

3. Rural people in our part of the country when they have some surplus money either invest them in land or carry on money-lending business or bury their treasures in earth to dig them out again when necessity occurs. Where there are co-operative societies the rural people are induced to deposit their surplus money with the village society. Unwise and unthrifty people generally waste their money over litigation, drink and wasteful expenditure.

In urban areas educated people mostly deposit their surplus money in banks or in landed properties. Marwaris and *mahajan* class invest such money in expanding their business including money-lending. Half-educated and uneducated mass either invest them in silver or gold or land or waste them by extravagant expenditure.

In our district farmers do lend to their fellow-agriculturists. When the lender and borrower are near relations lenders do not charge any interest, otherwise they charge the usual rate charged by the village money-lenders. But when they advance a big sum, say Rs. 50 and above (Rs. 50 is a big sum in Chota Nagpur village), they generally take the debtors' lands in mortgage with possession.

In prosperous years, agriculturists do not generally borrow, so the well-to-do farmer's money remains idle, buried in earth.

4. Only the educated people and businessmen issue cheques. If Government servants and bank employees when they are paid above Rs. 100 are paid by cheque it will certainly further promote the cheque-habit.

In India the number of English-knowing population is very insignificant. Moreover most of the people engaged in business and in land trade do not know that language. It would therefore be better if vernacular script in banking is introduced. In village co-operative societies vernacular script is used. This has helped in gaining the confidence of their clienteles as some of them at least can read the entries made.

5. It is true that the banking and investment habit in India is of very slow growth. This is due to want of education and proper propaganda. We have found in village co-operative societies where members are educated to the benefit of banking and investment habit and much propaganda is carried on by co-operative workers, the rural population is acquiring such habit.

Additional Questions.

1. Yes, this is so. They are backward in banking activities as compared to Indians from other parts of India. This is due to want of proper education.

3. (a) In our province almost in every subdivisional headquarters (except in two or three) there is a Co-operative Central Bank which accepts deposits on current account, so we do not think it necessary for the post office to take up this business.

Instead of Government undertaking this business, it should help the co-operative movement by strengthening its co-operative department to establish co-operative societies at a faster rate all over the province and at the same time to make adequate provision for their proper supervision and education of their members in co-operative principle and practice and thereby to create a genuine spirit of co-operation in them.

5. Yes, this is true. The *mahajans* generally mix up in a single account with a client both trading and banking transactions. It leads to evils certainly but I do not think this can be remedied by legislation.

7. It is not at all desirable to get up a class of licensed money-lenders for financing agricultural population or small scale trade or small scale industries. They can only safely and properly be financed by village co-operative societies and urban co-operative banks.

Any other organization for financing will lack that moral tone that prevails in a co-operatively-organized society. If Government is to restrict the lending by licensed money-lenders to productive purposes only it will have to keep a big staff to check the transactions and even by maintaining a big staff it will not be impossible to check the misuse of the facilities and privileges given to the licensed money-lenders.

8. This is so, most of the people try to invest their savings in land, specially in rural areas. This is forcing up the price of the land beyond the value which the returns therefrom would justify.

9. These people generally obtain their finance from their *mahajans*, specially of Marwari class, at a high rate of interest. They can best be financed by organizing urban co-operative banks which will be able to advance money at a low rate of interest and on long terms.

Oral Evidence.

Chairman: You have been associated with the co-operative movement in Ranchi for a good many years now?—Yes, for the last fifteen or sixteen years.

Could you tell us briefly in what way you have been associated with the movement?—I am an honorary organiser of co-operative societies. I am connected with the Ranchi and the *Khuntis* co-operative banks as their Director, and I am also the Managing Director of the **Weavers' Co-operative Stores** in Ranchi.

Mr. Hodge : In an honorary capacity?—Yes, in every case.

Chairman : You have given us a description of the various agencies which finance the agriculturists. First of all you mention outsiders who are partly Kabulis and partly Nagas from the Shahabad district. Then you go on to say that there are in the villages the permanent *mahajans* as against the itinerant *mahajans*, then the well-to-do aborigines and zamindars who also do some money-lending and then as we all know the co-operative societies. Could you let us know in what order of importance would you put these various agencies in respect of the amount of business they do?—I would put the village *mahajans* first as the people who do most money-lending, then the Kabulis and the Nagas, next the co-operative societies and lastly some of the well-to-do *raiya*s.

Do you think the money-lending business of the well-to-do *raiya*s is increasing?—I cannot say it is increasing.

Professor Batheja : Is it true that some of the well-to-do *raiya*s bury their money rather than lend to their neighbours?—It is very difficult to say what percentage of them do so, but I know of cases where people who can afford it lend to their neighbours and their relatives even without charging any interest. The tendency is to invest surplus money in land.

Chairman : I notice you say that the poor cultivators and agriculturists go to Bengal and Assam to work as labourers in the tea gardens. Do you consider that an important factor in the economic condition of this part of the province?—I think so. They find it impossible to meet their requirement with what they get from the land at present.

Do you think they are able to earn a considerable amount of money by doing labour in Bengal, which they utilise in this province?—I think so.

Is there any tendency towards this kind of labour going for shorter periods?—They go there for six months in the years. This is the time when they go to Bengal and they return before the cultivating season. They go to Bengal every year like this. In every village we find that almost half the number of people are going to Bengal and Assam to work in the tea gardens there.

Mr. Hodge : Have they to borrow money to go there?—Not generally. Sometimes they get advances from the tea companies.

Professor Batheja : Do they go because agriculture does not pay and land is not sufficient for them to cultivate?—They have no subsidiary occupation at present. I do not think there is any dearth for land but they do not work intensively to improve the same.

R. B. Jalan : Can the cultivation be improved if they take up subsidiary industries?—Why not, there are several openings for them. They can take to sugarcane industry, ground-nut, potatoes, cabbages, onions and other things which are really paying. In the Khunti subdivision I have advised the cultivators there to do so and all these

subsidiary industries are greatly helping the cultivators to improve their economic condition.

Mr. Hodge : Do you think intensive farming will pay them as much as they are able at present to make from the tea gardens?—I think so.

Do you find that these people are able to return their loans to co-operative societies when they return from Bengal?—Yes, they do so.

R. B. Jalan : Does not the co-operative society do anything to improve cultivation?—Yes, they are trying to do so. Of course, the main aim is the agricultural improvement. We have started several village welfare societies where I have specially advised these villagers to make intensive farming, such as growing sugarcane, ground-nuts, etc., and they are all in a flourishing condition.

Chairman : You have said something about the grain *golas*. Are there many grain *golas* organised by co-operative societies?—There are only a very few of them at present. Some of the societies are starting a grain branch. During the harvest season we induce the members to collect paddy and that paddy is lent out to the members at 25 per cent. interest.

Do you think that that is a form of organisation which could very well extend in Ranchi district?—I think it would.

Would it require extra finance for development?—I do not think it necessary. Interest earned on voluntary collections of paddy would, I think, be sufficient to make up the working capital.

So you do not consider that outside capital is required?—No outside capital is required.

Where do they keep the grain at present?—The grain is generally kept in the houses of the members.

There is no central store for that?—Not at present. We are now trying to build a central store in every village.

You speak of *Kaths*. Would you kindly explain that term?—It is three quarters of a maund.

Would you recommend any Government loans for the construction of these grain stores?—I think it would be well if Government could do so at the lowest rate of interest, i.e., $6\frac{1}{2}$ per cent. not more than that.

What will they do ultimately with the profits obtained from these *golas*?—Profits could be accumulated. Up to now they have not utilised the profits. In one particular village where there is a co-operative grain *gola* they are considering the construction of a boarding house in the school there with the profits earned from the *gola*.

I notice you say that in paying land revenue, agriculturists generally borrow from *Kabulis* and *Nagas*. The agriculturist does not pay land revenue direct to Government, does he?—I mean the rent paid to the *zamindars*.

Is not the rent in Ranchi decidedly low?—Yes, that is so.

Why then do they borrow from these people to pay the rent?—They do so only when there is a failure of crops and so on. Agriculture is in a backward state here in the Chota Nagpur Division.

Is it generally the case that money for paying rent has to be borrowed?—I have known it to be so in many cases.

Would you put that down as one of the primary reasons for indebtedness?—No.

What rates of interest are the central co-operative banks charging at present?—To the co-operative societies they charge $12\frac{1}{2}$ per cent. at present and the primary societies charge their members ordinarily $18\frac{1}{4}$ per cent. There are also some specially lower rates such as $15\frac{3}{8}$ per cent. and so on.

You say that for redemption of mortgaged lands $12\frac{1}{2}$ per cent. is the rate fixed by the co-operative societies. What is the maximum period you lay down for the repayment of loans meant for redemption of mortgaged lands?—Generally it is five years, but in certain special cases where the amount taken out is large the period is extended to fifteen years.

Do you take up the redemption of all the mortgaged lands of one *raiayat* at one time?—Yes.

What do you think of a plan of doing it piece-meal?—I think it is better to do so.

R. B. Dhandhanua : Do the co-operative societies charge any compound interest?—They do not do so generally.

R. B. Jalan : Even in special cases of defaulters?—It is not done so.

R. B. Dhandhanua : In revising the *kists* do you include the accumulated interest?—We do not do so.

Mr. Hodge : I think it has been done in some other parts of the province and the Registrar has issued a circular not to do so?—Yes, the Registrar has done so.

R. B. Jalan : What is the minimum amount that the Nagas and the Kabulis advance?—Say, from Rs. 2 to Rs. 100 to a person.

Professor Batheja : I believe the Kabulis are not itinerant money-lenders?—No, most of them have practically settled down in these places, almost in every thana (police-station) you can find them.

Chairman : What evidence have you for saying that the Nagas get their money from the co-operative societies?—They themselves have told me that they are members of co-operative societies in the Shahabad district and they take loans from there.

What steps can the co-operative organisation take to stop that practice?—If we find cases like that we stop paying loans to them.

I take it that the co-operative societies are not permitted to lend to non-members?—No, they are not permitted to do so.

Professor Batheja : Can you not make the people who borrow their requirements from these Kabulis and Nagas at exorbitant rates of interest members of co-operative societies?—Most of these people live a few miles away from the co-operative societies and moreover they are afraid to take a co-operative loan. They think that it is Government money and there will be trouble if they do not repay on the proper date and so on.

Chairman : Do you find that there is a prejudice against the idea of joint unlimited liability?—Yes, to some extent.

Do you think you will be able to get over that prejudice in due course?—I think it is possible to do so. Proper propaganda and the preaching of the ideals of the co-operative movement are necessary.

Professor Batheja : Has there been any case to your knowledge where the principle of joint unlimited liability has been applied in the liquidation of any co-operative society?—I know of only one instance and that was in the case of an old credit society for tailors where this principle had to be applied. This principle has never been applied in the case of rural co-operative societies.

Mr. Hodge : Do you find that respectable agriculturists borrow their requirements from the Nagas and the Kabulis?—Only the poorer classes do so.

Professor Batheja : Can you say where the Kabulis raise their finance?—Sometimes they take loans from the town *mahajans*. Even some village *mahajans* sometimes lend to these Kabulis.

R. B. Jalan : Do you know that they get most of their money from Calcutta on a credit basis?—May be, I do not know.

Professor Batheja : Do they also get money from the directors of the co-operative central banks?—I do not think so.

Chairman : But your experience is that these Kabulis in these districts not only advance goods on credit and charge high prices in lieu of interest but they actually advance money?—Yes.

Professor Batheja : Have these Kabulis settled down in these places with their families?—They have not done so. They do their business here for a few years and then they return to their homes.

Mr. Hodge : Do the Nagas come from outside the province?—They come from the Shahabad district.

Professor Batheja : Do the Nagas also resort to violent means in realising their dues?—They do not use violence as the Kabulis do.

Is not the use of violence by the Kabulis discouraged by the police?—The police do not take any steps in that matter.

Do the Kabulis keep themselves on the right side of the police by offering them some money?—I can not say that, but I have reasons to believe that they are up to corruption.

Mr. Hodge : You have not come across any cases of actual violence by the Kabulis?—No, I have seen them threatening the

borrower. I know of one particular instance where in a village one Kabuli had advanced Rs. 2 to a villager at one pice per day interest. The amount had accumulated to more than double the amount advanced, so that seeing the borrower threatening by the Kabuli I interfered and offered Rs. 4 in return for his loan of Rs. 2, but even then the Kabuli would not let the borrower go. I created a feeling of unity in the minds of the villagers. The Kabuli left the place the very day and I also organised a co-operative society on the same day in that village.

Chairman : You speak about the way in which the co-operative societies insure themselves in the case of long-term loans to members?—Yes, on collateral securities they do advance loans. That is usually done and the borrower gets the land back. There are two forms of that business, the ordinary form is called *bhugat bandha* and the special form is called *asulati*.

Is there any friction in the working of that system?—I do not think there is any friction in its working.

R. B. Dhandhania : Do you consider that it makes any difference to a man whether he loses his land in favour of a *mahajan* or of another member of the co-operative society?—We give him an opportunity to cultivate his land properly so that he could free himself from his debt. (By intensive cultivation he can repay his debt within a shorter period than the period for which he gives his land in *bhugat* to his society. As soon as the debt is repaid the bond is cancelled whereas in the case of the *mahajans*, the *mahajans* keep the lands in their possession for the full period of the *bhugat* bond. It is only in cases where he fails to do so that the land is taken away from him. Such cases are very rare. The *mahajan* will keep the land as long as possible to enable him to earn compound interest, but the aim of the co-operative society is to free such land as early as possible.

According to the law the *mahajans* can keep the land for seven years. For how many years can the co-operative societies keep it?—The maximum period is fifteen years. The difference between the *mahajan* and the co-operative society is this. The *mahajan* lends a large amount at high rates, while the co-operative societies prepare a scheme by which the *kist* is fixed so that they can repay the money in short periods by instalments.

Is it not a fact that the co-operative society can afford to lend the money at a lower rate of interest because it can keep the land for fifteen years according to *bhugat bandha* while the *mahajan* can keep the land only for seven years?—I do not think that is the main reason—

R. B. Jalan : In the Chota Nagpur Tenancy Act there is no other advantage given to the co-operative societies except that the period is extended from seven to fifteen years?—That is so.

You admit that gives them a definite advantage over the *mahajan*?—Yes.

Chairman : As a matter of fact do the co-operative societies do a great deal of *bhugat bandha* transactions for periods in excess of seven years?—Yes, they make use of that law considerably. ¶

Mr. Hodge : Where do they get their capital for such a long-term loan?—Of course they are taking the risk.

Have you any deposits now for periods more than three years?—No.

Chairman : I suppose you will have a certain amount of reserve built up?—Yes, that is also used up some times.

Is there any other portion of the working capital of the bank that could be used without danger for the business of long-term loans?—Other than the reserve, there is the share amount of the society.

Do you think it is legitimate to use the share capital of the bank?—Yes, there could be no objection to that.

Mr. Hodge : Have you any arrangement with the Provincial Bank by which you could get long-term loans at present?—There is none at present.

Chairman : To do that it will be necessary for the Provincial Bank to issue debentures?—Yes, they will have to do so.

Would you advocate the central banks themselves doing that?—I do not think it is time yet for them to do so.

Why do you think so?—It will be dangerous for the central banks to do so at present.

Supposing you put together all these various portions of your working capital that could be used in this way, do you think that it will be safe to go above that sum if you keep within a definite percentage above that sum?—It will be risky no doubt to advance more long-term loans above the money we can reasonably spare.

Would you agree that it is very desirable at this stage of the co-operative movement to maintain two separate sets of books of accounts for long and short-term loans respectively?—I agree it would be better to do so.

Mr. Hodge : Do you think it is possible for the ordinary village society to combine long and short-term loans in the same society?—It is possible to do so and we are doing it now.

Do you find that practicable?—Yes.

Chairman : Practically all borrowers (agriculturists) want both forms of loans in Chota Nagpur. Is that your impression?—Yes.

R. B. Jalan : What are the *bhugat bandha* loans made for by co-operative societies?—They are mainly done for paying up old debts.

Chairman : You say that merchants and *baniyas* living in the rural areas advance money on the *chara* system to the cultivators for meeting their expenses during cultivation. What do you mean by that term?—To meet the cultivation expenses sometimes they advance money on this condition that the borrowers at the harvest season will repay the amount in kind which will work out at about 25 per cent. interest.

Is that very common?—I cannot say it is very common but there are several cases like that.

Apart from that is there any widespread arrangement by which the money-lender forces his debtor to sell crops at a lower price than the market rate?—No.

So, except in *chara*, you think there is free marketing in Chota Nagpur?—Yes, I think so.

R. B. Dhandhanian : You say that the professional money-lenders' dealing with the cultivator class are not always fair. What makes you say that?—Because the accounts of these money-lenders are not kept properly and they invariably keep their borrowers at their mercy.

That statement of yours is, I suppose, made only against the Nagas and the Kabulis and other small money-lenders and not against the big money-lenders in the towns, I suppose?—Yes, I do not refer to the big money-lenders in the towns.

Chairman : Then you say that Rs. 100 should be provided for meeting the needs of each family on an average. Is that for a year?—That is only my estimate for farming and other expenses of improvement of the land.

Then you have put the present indebtedness at Rs. 50 lakhs, but you say, working on the basis of your estimate of Rs. 100 per household you put the total needs of the district at Rs. 2½ crores, so that you think there is a real need for 2 crores of rupees?—Yes, that is what I mean.

Within what period of time do you think that such a sum of money could be usefully spent in Ranchi district?—At present the central banks have not sufficient time to look into that side of the work. I think a separate organisation is necessary to look into all these needs.

If there is an adequate organisation do you think it could all be done within a period of ten years?—I think so.

Do you think, taking into consideration the difficulties of building up an organisation such as you contemplate for improvements in the Ranchi district, possibly Rs. 50,00,000 would be all that will be required as extra finance for the purpose in the next ten years?—Yes.

I notice that you contemplate getting the rates of interest down to Rs. 9-6-0 for general purposes and for land improvements and land redemptions to 6½ and 7½ per cent. respectively. How do you expect to get your loans at very much lower rates than you are able at present to lend out to the members?—I think the State Bank ought to be able to finance at lower rates of interest to Provincial co-operative banks.

I suppose you will agree that the rates of interest are governed by the rate at which the best security can borrow money from the country?—Yes.

And you will agree further that Government of India borrowing can be considered as the best security?—Certainly.

At present the Government of India cannot borrow at anything less than $5\frac{1}{4}$ per cent. Of course it is true but I only suggest that Government should find out some means by which they would be able to advance at cheaper rates to the co-operative societies.

Mr. Hodge : At what rate of interest do you suggest that the society should borrow if the individual member should be enabled to borrow at Rs. 9-6-0 per cent?—The central banks borrow at present at 6 per cent. Taking $1\frac{1}{2}$ per cent. for working expenses they could lend it to the societies at $7\frac{1}{2}$ per cent. and the societies in turn after taking another $1\frac{1}{2}$ per cent. to cover their working expenses could find it possible to advance to the members at 9/6 per cent.

Chairman : Are the reserves of the central banks increasing at all rapidly?—The investment is not much.

But are you not putting away a certain percentage of your profits to make up the reserve?—Our profits are not very much and whatever profits we are able to make are spent in development work. No dividend is declared.

Consider that the profits earned by this, what you admit to interest of $18\frac{3}{4}$ per cent. are best spent on agricultural development rather than on trying to reduce the rate of interest or increasing the reserve?—I think it is best spent in agricultural development.

Mr. Hodge : You also recognise the necessity for having reserves in the case of issuing long-term loans?—Yes, certainly.

Professor Batheja : But do you not think that expenses on development are more rightly chargeable to Government rather than the central co-operative bank?—That is true, but every department of Government says that it has no funds.

Will you not be able to spread the net of the co-operative movement wider if you could reduce the rate of interest considerably?—I have already admitted that in my memorandum, but the question is, where can we get funds at cheaper rates?

Chairman : In whose hands lies the decision to adopt this policy of agricultural development rather than the policy of reducing the rate of interest? Who has been responsible for that decision? Is it the cultivator or is it the management of the bank?—In every case the *raiyat* only wants the interest lowered.

So that the policy in force does not emanate from the cultivator himself?—No.

Professor Batheja : Is there any agency to check the expenditure of too much money in a particular line of action by the directors of the bank?—There are departmental officers to see to that.

Chairman : I see that you are in favour of the development of co-operative sale societies?—I am not exactly in favour of the idea as I doubt very much whether the time has come to introduce it.

You say that it is found that there is a difference of 100 per cent. between the prices at which rice will sell in December in the village and that which the consumer has to pay in June and July. What evidence have you to substantiate that statement?—We find that it is practically the case. The consumer in the villages has practically to pay double the price.

Would you be surprised to hear that in Ranchi town the average difference between the January and June price of paddy in the last ten years has only been 13½?—That may be so, but I speak of the condition in the interior parts of the district. I can speak only of village conditions and not conditions in the towns. I am only a village worker.

Do you think that if the rate for the village consumer was 100 per cent. higher in June against a 13½ per cent. difference in the town there would not be a steady flow out of grain to the villages?—I do not know whether 13½ per cent. is a correct figure.

Professor Batheja: Do you think that the figures supplied by the Agricultural Department are not quite correct?—It is very difficult to say.

Chairman: I have put this forward because, I think, it is a point usually overlooked by people who advocate the establishment of co-operative grain *golas* or sale societies.

Professor Batheja: What is your objection to starting sale societies in the villages now for selling rice and things of that sort—I mean societies for the selling of produce of members of village societies?—The difficulty is that the village people lack the knowledge and business capacity for managing their own societies. Moreover, it is very difficult to cure them of their moral disease. Until the time we are able to cure that disease our rural problems will not be solved.

You think that they have not got enough moral stamina?—I think so.

Mr. Hodge: Does the moral disease take the form of distrust?—Yes, due to the lack of character.

Chairman: I notice that it is your idea that the remedy for reducing the indebtedness of the ordinary agriculturist is to grant long-term loans through the co-operative central banks; at the same time you think that there is a class of landholders who might be usefully financed by a separate agency. Do you think that Ranchi district itself is a very good place for starting such an experiment?—I think so. The landlords here at present are buying their requirements at high rates of interest.

Are there not certain fundamental difficulties here, e.g., the possible insecurity of tenure and so on?—That danger does not exist now. I think we can easily advance long term loans.

Are the landlords on the whole good payers in this part of the province?—Yes, they are.

Would it not be better to experiment with the land mortgage banks in some places where the people are comparatively more educated before attempting Ranchi district?—The condition of the landlords here is worse than the condition of the landlords in the other districts of the province. In other parts of this province the rate of interest charged by the *muhajans* is not so high as it is here.

Is there any existing organisation or class of people who would be ready to take up the management of such a land mortgage bank in the Ranchi town itself?—I think some of the educated landlords will take it up as also other leading public gentlemen.

You recognise that it will be difficult to start a land mortgage bank without some good people with local knowledge and education who would be directors of the concern?—I agree.

Professor Batheja : Do you not think the Chota Nagpur Banking Association is a very well-managed institution?—Yes.

Will they not be able to take up this work?—I do not think so.

Mr. Hodge : Can the landowner or the tenure-holder alienate his land in Chota Nagpur?—Yes, he can do so without any restriction whatsoever.

* *Batheja* : I notice that you suggest the amending of Encumbered Estates Act?—Yes. A landlord who has ~~an~~ ^{on} a state-controlled land mortgage bank, should not be given protection under the Encumbered Estates Act, otherwise the banks will be a loser, as according to the said the rate of interest can be reduced to even 3 per cent. annum.

Is that power of reducing the interest vested in the Deputy Commissioner?—I think so.

Do you think it necessary to amend the Chota Nagpur Encumbered Estates Act in any other way to facilitate the starting of land mortgage bank?—I do not think any other amendment is necessary.

Chairman : Would it be necessary to amend the Act itself or would it do if the Government would express their intention of not taking under management estates which had borrowed from a State controlled land mortgage bank?—I think that is enough. Amendment is not necessary.

Mr. Hodge : Have you found any desire expressed here for a land mortgage bank?—Yes. I am also a member of the Landholders Association here and we ourselves were thinking of starting a bank here. I had a talk with the Registrar of Co-operative Societies on the subject, and then he stated that there were certain difficulties.

Professor Batheja : Are you a zamindar yourself?—Yes, I am a zamindar.

Chairman : Dealing with the Survey and Settlement operations of Government you say that it would be better if separate *parchas* are prepared for lands in possession of each member of the family instead of entering all in the same *parcha*, when preparing the records of

agricultural lands. Are not the details given in the remarks column?—It is better to give them separately, I think.

That would not affect the land mortgage bank, will it?—No, it would not affect the land mortgage bank, but it will affect the co-operative society as when a man becomes a member of a co-operative society it will be very difficult for the society to find out what proportion of the land he owns and so on.

You think the record-of-rights shows adequately the extent of the property of the client so as to meet the requirements of the proposed land mortgage bank?—Yes, it does.

You advocate the reduction in stamp duties, registration fees, and the supply of copies of record of rights. Do you not think it is undesirable to get disguised subsidies from Government of that character? Is it not much better to ask for a Government contribution to stabilise the bank rather than disguise the same by asking for numerous and somewhat petty concessions of this nature?—These subsidies, in my opinion, help a great deal in carrying out the work of the existing societies and I think in the case of land mortgage banks they are necessary.

The client will not get these advantages, but it is the bank which will be benefited by these concessions?—Yes, that is so.

I see that you want Government to guarantee the bank's capital and the interest in the beginning. Is there any prospect of Government doing so?—This is after all a new venture and to enable the public to take interest in the institution, it would be better for Government to do so at least in the beginning.

What officer of Government do you think would be able to control the working of such a bank?—The Deputy Commissioner of the district may be in charge and he might have an expert adviser of the Co-operative Department to assist him.

Professor Batheja : Even with the help of a Government guarantee do you think that the land mortgage bank will be able to raise money at such a low rate of interest as 4 or 5 per cent.?—I think it possible.

What should be the rate of interest that these banks could charge for land mortgage purposes from zamindars?—I think the rate should not be more than $6\frac{1}{4}$ per cent. for loans advanced for development purposes.

Chairman : The main purpose of the land mortgage bank may be taken to be the redemption of existing debts?—In that case the interest could be charged at $7\frac{1}{2}$ to 8 per cent. per annum.

Do you think the bank should have a flat rate for loans or should they take into consideration the personal character of the client?—I think a flat rate would be advisable.

Mr. Hodge : Do you think the purpose of the loan might be considered—loans for land improvements, for example?—Yes, it should be considered.

What capital would be required for establishing a land mortgage bank in the Ranchi district?—It might well begin with a capital of Rs. 5 lakhs in the first instance.

Chairman : Do you think that any portion of that amount could be raised locally?—I think it would be possible to attract some deposits.

In any case, do you not think that the apex bank will have to issue some debentures to raise funds?—Yes, they will have to do so.

Then do you think that these debentures will find a sale in the Ranchi district?—I think it will be possible to raise some money here that way. If the Deputy Commissioner will take special interest in this matter, I think we would be able to sell at least one lakh worth of debentures. Many landlords and public men will come forward and purchase these debentures.

I notice you say that in some cases the *mahajan* who advances money under a usufructuary mortgage gets only about $6\frac{1}{4}$ to $9\frac{1}{6}$ per cent. interest per annum. Do you think this state of things is due to accumulated compound interest?—Yes, I think so. I might also say that these cases are not quite usual and are comparatively rare.

Do you not think the remedy for that situation is for the *raiyat* encouraged to apply to the Deputy Commissioner for reinstatement rather than for the co-operative society to attempt a ~~some form of~~ redemption?—I think it is better for the *raiyat* to go to the Deputy Commissioner.

Professor Batheja : You say that these cases are rare with co-operative societies?—These cases are quite common outside the co-operative societies.

At what percentage would you put it?—I can say that it is equally common with co-operative villages as with villages where there are no co-operative societies.

Chairman : If the debtor according to the orders of the Deputy Commissioner gets possession of his land, is it not still open for the creditor to sue the debtor for an ordinary money debt?—Yes, that is possible.

And in that case it will be for the Court to examine the whole case and deal with it under the Usurious Loans Act if necessary?—Yes.

Do the courts as a rule make much use of the Usurious Loans Act at present?—No, they do not.

Would you recommend that the civil courts should be asked to examine cases very thoroughly when there is a decision by the Deputy Commissioner?—Yes, it would be better to do so.

Are the Subdivisional Officers also munsifs in this district?—They do civil work **also**.

The money suits are therefore filed before them?—Yes, except in the Sadr subdivision where there are ordinary munsifs.

I find you are in favour of encouraging hand-weaving in the Ranchi district. Who does the weaving at present?—The village weavers in general.

Is it a definite class of the population who does that work?—In the Sadr subdivision they are mostly Muhammadan weavers but in the Khunti subdivision they are all Hindus.

Is it your idea to improve their condition or to extend the class of weavers?—At present there is not even sufficient market to find a sale for their produce. I would therefore advocate improving the condition of existing weavers only. In some very rare cases these weavers are also cultivators.

You do not regard weaving as an ordinary subsidiary occupation for the agricultural classes?—No.

R. B. Dhandhanias : Do you believe that zamindars will borrow money from the land mortgage banks and expend the same towards the construction of bandhs, etc.?—Of course they will try to improve their land in all possible ways.

Chairman : I suppose you have seen the Kanki Agricultural Farm?—Yes, I have visited the same and I have introduced that system in some of the co-operative agricultural concerns in Khunti.

Do you advocate the introduction of cash credit primary societies?—We have not introduced that till now in our societies.

What has been hampering the extension of that system? Are there any difficulties in the way?—I cannot say.

Mr. Hodge : Are the central banks encouraged to do so?—I do not think so.

Professor Batheja : Is it not possible that money may be recklessly advanced to its members by the primary societies?—Much depends on the education of the members of primary societies.

Chairman : Would you separate the two functions of short and long-term credit?—I think it is better to do so.

And would you rest the control of issuing short-term loans in the primary societies?—I think control over short-term loans should be given to the primary societies.

Professor Batheja : Do you think in the present state of education in the country the control exercised by the central banks over the village societies is necessary?—I think it is necessary. My idea is, as aforesaid, to have two separate organisations for issuing long term and short credit respectively.

Will the cash credit scheme remove the control of the central bank to some extent?—I think so. We can trust the village societies with small sums of money.

Chairman : Is it your experience that up to now the central banks exercise their control rather too rigidly by trying to interfere

in minor matters which should be left to the primary societies themselves?—I do not think so.

Do they scrutinise rather meticulously the loans asked for after the primary societies have already sanctioned them?—They do scrutinise such applications well and I think that control is necessary and justified.

Is a great deal of education required to know whether one's fellow-villager is creditworthy or not?—I do not mean that kind of education.

Do you mean to say that they have not got the strength to refuse their requests in some cases?—Of course that is one of the reasons.

You have given us a figure of total indebtedness in the district. Could you give us an idea of the annual borrowings in terms of percentage on the total indebtedness? Have you ever considered whether there is any relation between the two?—The annual borrowings can be estimated to be about one-fifth of the total indebtedness.

Professor Batheja : What is your definition of indigenous banks?—I would put it as any person or private body which carries on banking business by accepting deposits and lending out money or lending out money alone without accepting deposits.

Are there many people in the Ranchi district who accept deposits?—There are several of them who accept deposits.

What proportion of them approximately would receive deposits?—I know of at least ten or twelve people in Ranchi who do regular deposit business, and sometimes they pay 9 per cent. interest on the deposits received by them.

Do these indigenous bankers compete very seriously with the joint stock banks or the co-operative banks?—Those who have confidence in the indigenous bankers deposit their money with them. I do not think there is any competition between the indigenous bankers and other bankers.

Chairman : What class of people do deposit their money with the indigenous bankers?—The middle class people generally. Those who have English education do not go to the indigenous bankers as a rule. They deposit their surplus incomes, if any, with the joint stock banks or in the post-office savings banks.

Do you think that there is still a considerable amount of buried savings in this district?—That system is fast dying out. Only in very rare cases people do so nowadays.

Has it ever come to your notice that the successful lac growers bury their cash whenever they get extra profits?—I do not think they do so. As far as I am aware they try to invest their money in lands. Possibly they might do so when they cannot get lands.

You do not consider that nowadays the buying of savings is very important?—No.

Professor Batheja : What do you think of the relations between the indigenous bankers and village people?—Formerly there was co-

operation between the *mahajans* and the village people but now there is exploitation in the place of co-operation.

When did the relations between the *mahajans* and the villagers change to one of exploitation?—I might say that the change began when the decadence of India began.

In view of your admission that the village *mahajan* is the chief financial agency for the agriculturists, do you think that he could be eliminated altogether?—They could be eliminated if we are able to organise co-operative societies properly.

Do you think that you could get enough money within the next twenty years to do so?—That depends on propaganda and education of the villagers. Personally, I do not think it is possible.

Taking facts as they are and finding it impossible to eliminate the *mahajan* out of the village society would it not be better to improve his lot and make him more useful to the agricultural community?—Yes, that could be done if you can change their mentality by preaching the spirit of co-operation in the villages.

You agree that you could improve the *mahajans*?—Yes.

Chairman: What do you think the village *mahajan* is able to make on his working capital after meeting all his expenses of management, legal charges, bad debts, etc.?—I think they will be able to make a net profit of about 25 per cent. after deducting all these expenses.

How many village *mahajans* have you been able to get into your co-operative societies?—In the Khanti bank I got a *mahajan* who invested Rs. 1,000 when we started the bank.

Does the village *mahajan* do any other business other than money lending? Are they petty traders also?—The *bania* class of money lenders are petty traders also.

Mr. Hodge: Is it your experience that indigenous bankers allow cash credits to reliable agriculturists?—Yes. I know of only one instance here.

Chairman: Is there any considerable amount of money which the urban indigenous banks lend out to people for lending again in the villages?—I know of one person who used to borrow money from the Marwaris and then lend the same at higher rates of interest in the villages.

But if that was the normal way in which the village *mahajan* gets his capital, you would have known of many more instances like that in your wide experience of the district?—I think it is a comparatively rare case.

Would you agree that the influence of the indigenous banks on agricultural credit is usually confined to within five or ten miles of the town in which they live?—That is so.

R. B. Jalan: Do you think that the village indigenous bankers possess capital and if so what is the amount of capital that they deal

with?—There are small *mahajans* who own only Rs. 500 as their capital of the business and there are also big money-lenders whose capital exceeds Rs. 20,000 to Rs. 30,000.

And these *mahajans* are residents in their own areas for a very long time?—Yes.

Chairman : You are not in favour of asking the post-offices to accept current accounts. Do you not think it will be an advantage to your primary society operating on the central co-operative banks if they could open current accounts with the sub-post-offices which will enable them to have better facilities of transmitting funds?—If that could be done, I agree it will be a great advantage.

The idea is that current accounts will be confined to the sub-post-offices?—I agree it will be useful.

R. B. Dhandhan : Is it not the case that co-operative societies are realising their *kists* with interest, in most cases, every year?—They do not do so.

R. B. Jalan : You referred to the petty *mahajans* with small sums of money as their capital. Are they flourishing rapidly?—Yes. they do improve their position every year.



सत्यमेव जयते

Friday, January 10, 1930

RANCHI

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. HODGE.

Rai Bahadur RADHA KRISHNA JALAN.

Mr. J. W. HOULTON, I.C.S., Settlement Officer, Chota Nagpur Settlement.

MEMORANDUM.

THE " ZAR-I-PESHGI LOANS " OF 1906—1910.

1. In September 1904 Sir Andrew Fraser, Lieutenant-Governor of Bengal, paid a visit to Ranchi, and had a long talk with the Rev. Father Hoffman of Sarwada on the subject of the Mundas and their grievances. The result of this discussion was a note by the Lieutenant-Governor in the course of which he called for a report from the Commissioner (Mr. Slake) and the Settlement Officer (Mr. Lister) on ways and means of righting the wrongs which the Mundas had suffered, often through the ignorance and apathy of the officer of Government. The joint report was ready in August 1905. The Commissioner and Settlement Officer had consulted a number of missionaries and other persons with knowledge of the questions involved, including the Rev. Father Hoffman and Mr. Whitley. The report deals at length with the grievances of the Mundas and contains many proposals for reform and new legislation. The proposal with which we are here concerned originated with Father Hoffman, whose suggestion is given below in full :—

" To examine seriously whether no legal assistance and protection can be given to the great number of unfortunate *raiya*s who were obliged by harvest failures, cattle-disease, or in quitious law suits to mortgage part or the whole of their lands on condition that the lender cultivate the fields until the *raiya*s have repaid the whole amount advanced to him. Many of these people have been reduced to such a state of indigence that they cannot hope for the recovery of their lands.

" The amounts borrowed by them in moments of acute distress are often comparatively trifling. The yield of produce of the land amounts to

quite an iniquitous interest. The very destitution into which the loss of usufruct places them, rendering repayment almost or really impossible, thus changes the mortgage virtually into a real perpetual transfer, and that for amounts ridiculously, not to say iniquitously, below the value of the lands.

The late law protects the *raiya*t against this iniquity in future. But what about those who fell into this treacherous pit before that law was made?

" Would it not be possible to insert into the law a clause to the effect that from a certain date, to be fixed by the law, all former mortgages of the kind described above, assume the character of *bhugut bandha* transactions, i.e., that from that date the amounts formerly advanced, commence to be repaid, *ipso facto*, by the usufruct of the mortgaged lands at a fixed rate per acre of land, and that after the lapse of seven years all those transactions shall be considered as legally extinct and the borrower shall, *ipso facto*, re-enter into the free use of his lands? The lenders could not reasonably object to this, since in all cases they have already gained not only high interest, but the capital as well over and again."

2. Messrs. Slacke and Lister in their report did not support the proposal to convert the *zar-i-peshgis* into *bhugut-bandhas* (leases by which both capital and interest are deemed to have been paid off by the enjoyment of the land for a term of years), but proposed that a scrutiny be made of the settlement records and lists prepared of all mortgages in *Mundari Khuntkatti* tenancies, in *bhuinhari* tenancies, and in *Mundari raiyati* holdings situated in *bhuinhari* and broken *Mundari Khuntkatti* villages showing :—

- (a) mortgages, the amounts of which are less than the value of the lands mortgaged;
- (b) mortgages, the amounts of which exceed the value of the lands mortgaged.

With regard to class (a), they proposed that advances be made under the Agriculturists Relief Act to enable mortgagors to redeem their property, and if necessary, to buy cattle and seed for the cultivation of their land. It was pointed out that the amount of the mortgage was often entirely fictitious and that it could be reduced after scrutiny, on the analogy of the clause in the Encumbered Estates Act, which empowered managers to scrutinize claims and reduce them when exaggerated. It was mentioned also that a large number of mortgagors had taken advantage of the settlement operations to tender repayment of mortgages and that it had become evident, from the statements of the debtors, and the " ill-concealed disgust " of the creditors, that serious difficulties confronted a mortgagor who wished to repay a loan after the period of the mortgage had expired.

3. With regard to clause (b), no action was proposed for the present.

4. By December 1905 the Settlement Officer had ready a statement of usufructuary mortgages for an area of 1,250 square miles, covering parts of thanas Khunti, Tamar, Silli, Rahe, Torpa and Bundu. The total amount of the mortgages was Rs. 4,73,580 (the figures were

compiled for Mundari mortgagors only). In cases involving Rs. 85.505 the estimated value of the land exceed the amount of the mortgage. The valuation adopted was Rs. 30 per acre for *don* land and Rs. 4 for *tanr*. These rates were admittedly low, "so low as to be perfectly safe."

5. In January 1906 the Deputy Commissioner of Ranchi (Mr. H. L. Stephenson) sent up his proposals, which he had worked out in consultation with the Settlement Officer, for the work of distributing loans. He did not recommend the scrutiny of debts with a view to reducing those which were found to be exaggerated, on the ground that legislation would be required and that the general result would be unsettling. But he pointed out that the valuation adopted was fair for *raiya* rights only, and that the value of the rights of a *Mundari Khuntkattidar* or *Bhuinhar* was greater than that of *raiya* rights only. He proposed that for the present only those cases should be tacked in which, as reported by the Settlement Officer, the debt exceeded the estimated value of the land, and in which the term of the mortgage had already expired or would expire in 1906. The amount of the mortgages falling in this category was Rs. 67,687. He proposed that a Sub-Deputy Collector be sent out with the necessary registers and settlement papers, making a start at Tamar. The Sub-Deputy Collector would call in the mortgagors and would explain the intentions of Government to them. If they were willing to take a loan under the Agriculturists Relief Act, and if he was satisfied that the debtor had sufficient means to cultivate the land if he regained possession of it, the Sub-Deputy Collector would issue a notice on the mortgagee calling on him to appear to take back the money and relinquish possession. The officer would be empowered, with the sanction of the Deputy Commissioner, to make a further small loan to the debtor to enable him to start cultivation, provided he considered it safe. With regard to security, the Deputy Commissioner pointed out that the law prevented the alienation of *Mundari Khuntkatti* holdings (except by *bhugut bandha* loan for seven years) or of *raiya* holdings (except for a period of five years) and that similar restrictions were about to be introduced for the *bhuinhars*. It was thus unlikely that security in the form of immovable property would be forthcoming. He therefore proposed that Government should be content with inserting a clause in the bond which should prevent the debtor from mortgaging or otherwise alienating his land without the permission of the Deputy Commissioner until the loan should be repaid. In case of failure to pay, the crops and movable property of the debtor would be sold in execution. The Deputy Commissioner did not anticipate any real difficulty in recovering the loans. He proposed the repayment of the loans by yearly instalments on the 15th January, and that the period of repayment should vary with the proportion that the debt bears to the value of the holding.

6. These proposals were accepted by Government, but the Chief Secretary pointed out in his letter that the Deputy Commissioner was

under a misapprehension regarding the sale of *raiya*ti holdings, and that under the Chota Nagpur Landlord and Tenant Procedure Act (section 10A) *raiya*ti holdings could be sold for the recovery of a loan under the Agriculturists' Loans Act, and that the new legislation would place *bhuinhars* on the same footing as ordinary *raiya*ts. With regard to *Mundari Khuntkattidars* the rules regarding security would be relaxed with the sanction of the Government of India, to enable advances to be made to them on their agreeing not to alienate their holdings until the advances were repaid.

7. In a subsequent order the Government of Bengal ordered that *raiya*ts receiving loans should be made to mortgage their holdings to Government up to the legal maximum of five years, and *bhuinhars* (until the law should be altered) until repayment.

8. In June 1906 the Deputy Commissioner submitted a list of cases in which the amount of the debt fell below the estimated value of the land, after taking into account the value of the landlord's right as well as the *raiya*ti rights. For this purpose the value of *don* was taken to be Rs. 45 an acre as against Rs. 30 for the *raiya*ti right only. The total additional amount came to Rs. 35,406. The Deputy Commissioner noted also that a recent ruling of the High Court (*Pattan Singh vs. Reshal Singh*, I. W. R. 7) laid down that a mortgage could be redeemed at any time irrespective of the term for which it was originally executed. He proposed therefore to take steps to pay off the whole of the Rs. 85,505 given in the Settlement Officer's original statement, plus this new sum of Rs. 35,406. From this letter of the Deputy Commissioner it appears that the Board of Revenue had fixed the interest at one anna in the rupee (the orders are missing). In case the mortgagee should refuse to accept the money the Deputy Commissioner proposed that it should be deposited in the Munsif's court.

9. In August 1906 the Deputy Commissioner reported that the work of giving out loans, which was being done by Babu Bhuban Mohan Chatterjee, was making good progress. At first the Mundas were afraid of the loans and the mortgagees were unwilling to give up possession at once. But confidence was soon established—a large number of loans had been paid off in the presence of the Assistant Settlement Officers without necessity for loans. The loans officer was giving compensation to mortgagees who had already sown crops in the land. There had been no occasion to deposit the money in the civil court.

10. In November 1906 the Deputy Commissioner submitted his report on the first year's work. The amount expended was Rs. 70,191, and further loans amounting to Rs. 24,195 had been sanctioned but withheld until the following *Magh*. An additional loan of Rs. 6,000 had been asked for by one Mangal Singh Munda of village Amlesa.

11. In March 1907 a letter was received from the Government of India on the subject of security to be obtained from *Mundari Khunt-*

kattidars. The Government of India suggested that recovery should be made under the Public Demands Recovery Act, instruments being taken from the borrowers under which they would agree to the application of the procedure contained in that Act for the recovery of sums due to the State. Order to this effect were accordingly issued and the loans officer was empowered as a Sub-Registrar for the purpose.

12. In September 1907 the Deputy Commissioner of Ranchi (Mr. Watson) submitted his report of the second year's work. Government had sanctioned the distribution of loans amounting to Rs. 36,000 in thanas Torpa, Basia, Kolebira, Bano and Karra. The work was completed except in Bano, which was cut off by flooded rivers. The report shows that actually Rs. 26,415 was advanced. In Kolebira and Basia many of the mortgagors were so hopelessly involved that no attempt to save them was possible. There was no difficulty about obtaining possession, and little compensation was paid to mortgagees. In many cases the mortgaged lands were in possession of tenants set up by the mortgagees, and often these tenants were the original *raiyats* themselves, cultivating on the half-produce system. With regard to future operations the Deputy Commissioner suggested that the work be kept in abeyance for one year, as the settlement costs were about to be realized in thanas Kochedega, Kurdeg, Palkot, Raidih, Basia (part) and Gumla and the redemption of the mortgages would involve the charging of the mortgagors with the costs of settlement.

13. The third season's work was carried on by Babu Sat Couripati Roy, Sub-Deputy Collector. He began his tour in June 1909. The amount advanced was Rs. 17,178 plus Rs. 242 as advances to enable the borrowers to provide themselves with agricultural implements, etc. No compensation to mortgagees was given, but they were allowed to remain in possession on the *sajha* (or half-produce) system for a year.

14. In March 1910 the work was carried on in thanas Ghaghra and Chainpur. Government had sanctioned the advance of Rs. 12,325 in loans. Actually Rs. 4,112 was advanced, plus Rs. 33 for agricultural implements, etc. Thus Rs. 8,180 remained unexpended. The loans officer had refused to redeem mortgages amounting to Rs. 3,114 owing to insufficient security, or his belief in the inability of the debtor to repay the loan. Mortgages amounting to Rs. 1,438 had already been redeemed. In cases involving Rs. 1,739 the tenants refused to accept loans. In some cases mortgagors failed to appear before the loans officer, and sometimes there was disagreement between joint mortgagors. One reason for refusal to take loans was that the mortgagors objected to paying regular instalments in all years, good or bad. They preferred to repay money when convenient to them.

15. For the next year's work the Settlement Officer gave a list for thanas Lohardagga, Lapung, Bero, Sisai, Ranchi, Karra and Mandar, of mortgages in which the estimated value for the land exceeded the debt. The amount included was Rs. 35,123. In the

letter from the Deputy Commissioner (Mr. Thomson) to the Commissioner, in December 1910, doubt is thrown for the first time on the value of the scheme. He points out that up to that time Rs. 1,48,368 had been advanced. He gives figures to show that of the total amount due in repayment and interest over 41 per cent. stood unrecovered. The collections included those made under certificate procedure, so that voluntary payments were still more disappointing.

Warning notices had been systematically served on the debtors. Many of the defaulters would not pay until their movables were attached or sold, and in some cases the land itself, when saleable, had to be sold, or when unsaleable, attached and placed under the management of the Encumbered Estates. The Deputy Commissioner pointed out further that many of the debtors did not possess movables worth the amount of a single instalment, and the immovable properties were often not saleable, even for Government dues. Some of the people whose lands had been redeemed by Government had already mortgaged, and others were preparing to mortgage, their lands again to *Sahus*, so as to raise money to pay off the Government dues. There was reason to believe that in some cases the loans had been thrust on the people against their will. The Subdivisional Officer of Khunti had reported that in his opinion, formed after enquiries, "the loans have entirely failed in their object, which I take it was to give indebted cultivators a chance to get clear and keep in future out of debt. In most cases the loans from Government have been repaid by further borrowing from *mahajans* and others. The cultivators appear generally to be so improvident that debt is inevitable". The Deputy Commissioner adds that the Mundas appear on the whole to prefer the *mahajans* to Government as a creditor. The *mahajan* can go on advancing fresh loans when required and protects himself by taking the greater share of the produce. The certificate procedure (which the Government is obliged to use) is unpopular.

16. The case of Mangal Singh Munda of Amlesra (mentioned in paragraph 10 above) is described in detail by the Deputy Commissioner. The special loan to this man of Rs. 6,000 repayable in 20 instalments was sanctioned by Government on the strong recommendation of Babu Bhuvan Mohan Chatterjee and the Commissioner (the Commissioner, Mr. Gait, had reported "The Mundari is one of the best of his class and the mortgagee is said to be a particularly undesirable landlord".) Mangal Singh Munda defaulted from the beginning. A certificate had to be issued for Rs. 1,387. He did not, and could not, pay anything. His movable properties were attached and sold for Rs. 706. The amount still due from this man amounted to Rs. 6,624. The Deputy Commissioner after full enquiry into his income had found that only Rs. 400 at the most could go towards liquidation of Government dues, while the interest alone amounted to Rs. 398. It was therefore obvious that Government would ultimately have to forego the greater part of this debt. [It may be mentioned here that the whole property of this Mangal Singh Munda (or rather his heir) is still in 1929 under the

management of the Court of Wards and Encumbered Estates, and that a certificate for about Rs. 1,340 is still outstanding against him].

17. Among other criticisms made by the Deputy Commissioner to the system of granting loans is the following: "A Government loan will not reform a drunkard or a spend-thrift. Such persons defeat the intentions of Government by promptly contracting fresh debts." He remarks also that it is doubtful whether the results obtained justify the amount of work and expense involved, the issue of certificates, the management of petty attached properties, the deputation of officers first to grant these loans, and annually afterwards to recover them.

18. Mr. Sifton, Settlement Officer, agreed partly with the opinions expressed by the Deputy Commissioner but said that Government must have known when initiating the scheme that it was financially dangerous, and must have been prepared to face some loss. The Commissioner recommended that the issue of the loans be discontinued. The scheme had been in his opinion to some extent a failure. In March 1912 the Board of Revenue issued orders, with the consent of the Lieutenant-Governor in Council, directing that the grant of the loans be discontinued.

19. In August 1912 Mr. Sifton, who had just taken over charge as Deputy Commissioner, pointed out in a letter to the Commissioner the hardships which were being imposed on the debtors by the issue of certificates for the whole of the loans when the debtor had been unable to pay one kist, by sales of immovable property during the rainy season, the worst season of the year for the cultivator's point of view, which resulted generally in the sale of the *raiya*t cooking utensils for a few annas, and by the sale of further lands of the debtor when the sale of the land originally mortgaged failed to clear the debt. Thus the mistaken kindness of Government was resulting in a *raiya*t losing not only the land originally mortgaged but the rest of his holding also. He feared that bitter feelings of injustice on the part of Government would be aroused, unless the procedure were altered. The Commissioner directed that the instalments be realized by attachment of the standing crops, or if the crop failed, the amount should wait over until the next year. If at the end of the term of the last instalment the balance due was found to be irrecoverable it would have to be remitted.

20. I have not been able to find out the total amount of the loans which ultimately had to be remitted, but the loss sustained by Government is certainly not negligible. Many of the certificate cases were going on until a few years ago, and one, as described in paragraph 16 above, is still going on.

In general it must be said that the scheme was a failure. The opinion was often expressed by Mundas to the Attestation Officers last year that most of the men who took the loans were ultimately much worse off than they were before.

Oral Evidence.

Chairman : You are at present Settlement Officer, Chota Nagpur Settlement?—Yes.

For how many years have you been holding that post?—Since the beginning of the settlement operations in 1927.

And prior to that you had experience of Santal Parganas?—Yes.

You have given us a very valuable note on the results of an attempt to discharge the indebtedness of a certain class of agriculturist in Ranchi district. That note has, I take it, been derived from the papers in the Deputy Commissioner's office?—No, mainly from papers in the Commissioner's office, but unfortunately some papers seem to be missing relating to the work, including the kists of persons who received loans, and the amounts.

Do you think the missing papers would add very much?—It would be easier if we had lists of the names of the receivers and the names of the villages. It is difficult to get accurate information in the villages.

You say that serious difficulties confront a mortgagor who wishes to repay a loan after the period of the mortgage had expired?—Yes, there is sometimes that difficulty. There was a case last year in which one of the heirs of the original mortgagor offered to pay and the *mahajan* refused to take the money. He said "you can go to the Deputy Commissioner if you like but I would not take the money." We had one or two cases in which the parties appeared before the attestation officer and the heirs of the mortgagor asked the attestation officer to take the money and to give it to the mortgagee but I do not think he was empowered to do that and the case was sent on to the Deputy Commissioner.

What action did he take?—I have not heard of the action taken. Presumably he would insist on repayment being made.

Is there any provision in law to enable the Deputy Commissioner to take that action?—I think it is one of the cases which is cognizable only by the Deputy Commissioner of the district.

You say that a large number of loans had been paid off in the presence of the Assistant Settlement Officers without necessity for loans. Does that mean that the debtor-mortgagor paid over the money to the mortgagee without taking a loan from Government?—Yes. I think I have missed out the word "Government".

Professor Batheja : Could you say why a large proportion of the money advanced was not paid? Was it due to scarcity or failure of crop or the inability of the people to pay it?—I do not think there was any shortage in those years. I think very often the loans were too big and could never be repaid without mortgaging other lands.

Chairman : I take it that your view is that the attempt to redeem the debts in this way was a failure?—It was not a total failure. In about half the cases it was successful.

Do you think any similar scheme carried through either by a Government agency or by co-operative societies might be successful if greater care was taken to discriminate between the cases in which success was probable and in which success was most improbable?—Yes, I think it would have a better chance of success.

A scheme was put before us a day or two ago for the redemption of mortgages by small parts, that is to say to redeem two or three plots first and after four or five years two or three plots more. Do you think that would be a more reasonable scheme?—I think it would. What mortgages are you referring to—since the passing of the Chota Nagpur Tenancy Law or before it? All those made since the passing of the Chota Nagpur Tenancy Act are illegal.

Mr. Hodge : At any time?—All mortgages made since 1908 are illegal, except certain short-term mortgages. Under section 242, Chota Nagpur Tenancy Act the Deputy Commissioner (and as now empowered the Settlement Officer) can restore possession to Mundari Khuntkattidars. Mortgages made before 1908 are not illegal.

Chairman : Do you think there are a very large number of mortgages subsisting from before the passing of the Tenancy Act?—I have come across twenty or thirty cases but I understand from Father Liefmans that they are very common in some parts of the district.

So any action that was proposed by our Committee would have to distinguish between the loans taken before and subsequent to the passing of the Chota Nagpur Tenancy Act?—I think so. And under the present state of the law it would be very difficult I think to take action unless the law is altered because any mortgage for more than five years is illegal, except mortgage to registered societies which are legal up to fifteen years.

But it is not a fact that even if the Deputy Commissioner puts the man back into possession, the creditor can still go into the civil courts and sue as a money debt?—Yes, but I do not know what relief he would be able to get. *मन्त्रालय नये*

Would he not be able to attach the crops and cause a considerable amount of harassment?—Yes.

Mr. Hodge : We understand that the co-operative societies can take mortgages for fifteen years?—Yes.

Chairman : Apparently the co-operative societies are doing a certain amount to clear off the mortgages and Babu T. P. Ghose gave evidence to the effect that the line he recommended was that the co-operative societies should tackle the mortgages in which the amount lent was not out of all due proportion to the value of the land?—That is more or less what was tried after the last settlement in Ranchi (The “*zar-i-peshgi loans*”).

It is desirable perhaps to do that without pressing the mortgagor to go into the Deputy Commissioner's court and take possession, still

leaving himself liable to be sued for a money debt. What do you think of that?—I do not quite see how it would work.

Professor Batheja : So that if you try the legal machinery only without providing for some alternative is it not possible that once the man is free he may get into the clutches of the *mahajan* again?—Yes, that must be avoided. The debt should be paid bit by bit.

Are there a large number of cases of mortgages after the passing of the Chota Nagpur Tenancy Act?—Yes.

What would be the percentage?—I can obtain the figures. In thanas Bundu, Sonahatu and Tamar (our first year's area in the settlement) people are on the whole better off than in the rest of the district. They get a considerable part of their income from lac and they can even afford to neglect their agriculture.

Mr. Hodge : Are the illegal mortgages for a longer period than the legal ones?—Yes.

How do you trace the illegal mortgages?—Generally the mortgagee is in possession of the land. There is no attempt to conceal the fact of the mortgage.

Chairman : They are not registered?—Sometimes they are registered though under the law illegal mortgages may not be registered

But he may have it registered at the beginning and then carry it over five years?—Yes. This is often done. We have sometimes found registered mortgages for an indefinite period. We generally report the matter to the Deputy Commissioner.

Professor Batheja : Do you think that most of the mortgagees enter into these illegal transactions knowing the state of the law on the point?—I think the mortgagees know the law but they are willing to take the risk.

Why do they take the risk?—The fact is that the law cannot be strictly enforced between settlements.

Is it being rigorously enforced now?—We are enforcing it as far as we can. (Here the witness produced a statement which was discussed.)

Chairman : Have there been any evictions?—Yes, two to three hundred.

Has that created discontent?—No. Full consideration is given to the circumstances of each case. For example if an illegal transferee has made some improvements on the land or built a house or converted it into rice land generally we do not take any action.

This action is confined to *Mundari khuntkattidars*?—There is no action which we can take for any other land.

I understand that you have attempted to convert the existing *zar-peshgi* into *bhugut bandha*?—Yes. That is for *Mundari khuntkattidars*

Professor Batheja : You do that because you think *bhugut bandha* is better than *zarpeshgi*?—Yes. At the end of the *bhugut bandha* period the land will be restored to the tenant.

Is it also better for the borrower?—It is better than an ordinary mortgage until repayment, because under those mortgages generally the money-lender is so clever that the man never gets his land back.

We heard from one witness that the borrower also prefers that. He hopes later on to get the land back after filing an application to the Deputy Commissioner. Have you come across any such case?—I came across a case in which a *Mundari khuntkattidar* leased out some land for about Rs. 500. After a few years he went to the Deputy Commissioner and asked that the transferee be evicted because it was an illegal transfer. The Deputy Commissioner evicted him and the next day the Munda took another Rs. 500 and gave him the land back.

Mr. Hodge : Is it a fact that the *bhugut bandha* mortgages are going out of fashion now?—I do not know whether they were ever very common.

Professor Batheja : Do you think these legal restrictions have in any way reduced the credit of the borrowers and forced up the rate of interest?—I should think they have, especially in the case of *Mundari khuntkattidars*. I have had reports in this connection. But in the remote parts of the Munda country (as in South-West Tamar) there are no foreigners or money-lenders living in the village and there is no indebtedness.

Chairman : That was possibly due to the lac crop?—Probably not because in some of the adjoining villages they are very much in debt.

Professor Batheja : Is it possible to set up a class of money-lenders who may deal with fellow caste men?—Of course there are already quite a lot of Munda money-lenders.

How do the practices of those Munda money-lenders compare with the practices of other money-lenders?—Their interest is just as high, they generally advance small loans.

Is not the treatment of Munda money-lenders better than foreign money-lenders?—I do not think so.

Chairman : You collected some figures for the actual results of 1906 to 1910 experiment. Could you summarize those results in any way?—So far I have traced the history of twenty cases and in nine cases the people have definitely gained and are clear of debt; in ten cases they have lost by the transaction and in one case it was doubtful.

Roughly speaking half the cases in which action has been taken have been successful?—Yes.

Mr. Hodge : I think the legitimate inference would be that there is a certain class of people to whom no money should be advanced at all?—Yes.

Professor Batheja : Do you think Government is the proper agency to make such an inquiry?—I believe a suggested alternative is that there should be licensed money-lenders.

Would not the money-lender stand to lose his entire sum if he lends to risky parties?—Not if the Government were at the back of the money-lender.

Would he not stand a chance of losing his capital if he advance money to dishonest borrowers?—Certainly. At present the system is to advance a small loan and leave it unpaid until the man gets deeper and deeper into debt. I think the experiment is worth trying.

The money-lender has got expert knowledge which the Government has not got and the present money-lender is entirely uncontrolled. In exchange for facilities he will be controlled by Government. The experiment would be more useful to him and to the borrower?—I want to know what rate the money-lender would have to accept.

Some margin over the bank rate. Something like 12 per cent.?—I do not think he would take less than that.

Chairman : Have you had any opportunities of meeting money-lenders who have considered a scheme of that kind?—I have met some of the very big money-lenders.

Do you think that they are the sort of people who would accept Government control in return for sure realisation?—I think they might.

Do you think that it would be possible under the existing state of the tenancy law to give them greater facilities for realisation?—The Chota Nagpur Tenancy Act allows fifteen years for mortgages to co-operative societies and for realisation of Government loans under the Agriculturists' Loans Act.

That is to say that under the existing law it would be difficult to give them greater facilities?—Yes.

Do you think if they were given the same privilege as the co-operative banks, i.e., extension of *bhugut bandha* to fifteen years, that would be a sufficient inducement?—Yes I think it might be.

Was the co-operative movement in full swing in Khunti when you were Subdivisional Officer there?—Not much at that time.

Have you got into any touch with the co-operative movement recently?—To some extent.

Do the central banks manage to get their dues and do the primary societies?—The primary societies have some difficulty, I think. There are always one or two dishonest men who never intend to repay loans and so do harm to the small banks.

Professor Batheja : Do you think that many of the borrowers in this part of the country are hopeless customers from the bank point of view?—I think many of them are hopeless because they are drunkards and because the land is very bad in this district and is getting worse as the soil is being washed away.

Do you think in many cases the land is not sufficient to keep the men alive?—Yes.

Is that a very common cause of increase of indebtedness?—There are many causes for indebtedness. One cause may be bad luck with

his cattle, or one or two bad harvests. Some of them spend money on marriage ceremonies.

Is there much expenditure on marriage?—I think it is quite large in proportion to the income. I have had reports of cases in which a loan was taken for land improvement and the money was spent on marriage ceremonies.

Chairman : You say that the land in places is actually deteriorating. Do you see large scope for land improvement in the district?—I think there is great scope but unfortunately neither the tenants nor the landlords take any interest in works of irrigation and hardly any bunds or anything of the sort have been constructed in the last twenty years.

That is not for lack of capital but for lack of interest?—Yes and the big landlords do not spend anything like what they should on land improvement.

Do you think they could be put in a position of financing improvements collectively through co-operative societies?—Yes, but I think the Land Improvement Loans Act is sufficient. My suggestion is to spend money in educating the people. Special officers should go about the district and report suitable cases for Government loans.

Educating them specially in the possibilities of land improvement?—Yes.

Would you advocate doing that through the co-operative organisation?—I would rather advocate a number of men under the control of the Deputy Commissioner.

Professor Batheja : What class of person would you recruit?—I should recruit them from educated aboriginals mainly to go into the aboriginal areas.

Do you think they would have the same knowledge as the co-operative society organisers have got?—They might receive training in the co-operative societies for a number of years.

What is your objection to utilising the agency of the co-operative societies?—I think that in some cases at any rate the co-operative societies have been slightly discredited.

Do you think the co-operative societies command the same confidence as they did sometime back?—Some do and some I think do not.

Mr. Hodge : Could this matter of education not be done by an increase in the staff of the co-operative department?—Yes, that might be done.

Chairman : There would have to be men especially trained in the possibility of land improvement?—I think they would require some training in that. They could work in conjunction with the Agricultural Department who have propaganda work going on.

Mr. Hodge : The Agricultural Department also depends on the Co-operative Department for propaganda purposes. The agency you

suggest should be related to the Co-operative Department?—Yes, I think it should be.

Chairman : You anticipate a considerable amount of supervision on this kind of thing?—I think so. The scheme could depend largely on the supervision.

Is there any migration due to the fact that the soil is deteriorating?—At least to some extent in thanas Bundu, Sonahatu and Tamar.

Mr. Hodge : So that the population is increasing and the economic condition of the people is changing?—The density of population has probably increased since the last census.

Chairman : As far as you have got in the settlement, there is considerable extension of cultivation?—Yes, from 15 to 20 per cent. and in some places it is more than that.

In the course of the present settlement, are you making any study of indebtedness and its remedies?—We are preparing statistics.

Professor Batheja : Have you prepared family budgets showing the proportion of expenditure and income?—The officers are going to report on that.

Chairman : Was there any attempt made to study the question of indebtedness in the last settlement closely?—The *zarpeshgi* scheme was partly founded on the results of enquiries made in the last settlement.

Professor Batheja : What proportion of the village family budget is spent on meeting interest charges?—I can only make a guess. By interest charges you include repayment in the form of paddy or anything of that kind. I should think 25 per cent. [Subsequently on reading through his evidence, the witness corrected his estimate to 15 per cent.].

Chairman : Would you say in general that the debt charge on a *raiyyat* is very distinctly higher than his rent charge?—Yes.

Professor Batheja : Do you think it is an important item of a family's expenditure?—Yes. ✓

Chairman : Is there any certainty that the settlement operations will be extended to other parts of Chota Nagpur?—There is no certainty at all.

Are you also in charge of Porahat in Singhbhum?—Yes.

The conditions are pretty much the same as they are in Ranchi?—Yes.

We should not be far wrong in taking the evidence we have got regarding the Ranchi district and extending it to the Singhbhum district?—It is probably the same.

From your experience of Santal Parganas do you consider that the position there is again the same as it is in Ranchi?—I think it is better than Ranchi. The economic condition is better because the restrictions on transfer are more effective. In the Damin very few people are in debt.

Are any figures ready for Santal Parganas?—I think statistics have been prepared.

Mr. Hodge: What is your experience regarding the question of fragmentation?—We have found that the holdings have been very much subdivided since the last settlement.

Have you made any efforts to consolidate them?—We cannot do that under the law

Babu CHARU CHANDRA CHATTERJEE, Retired Deputy Collector and Manager, Palamau Wards Estate.

Replies to the Questionnaire.

1. (a) Cultivators borrow grains from *mahajans* for paying labourers in kind, as wages. In this district (Palamau) the agricultural labourers are paid in grain. They repay the loan to *mahajans* in harvest season, sometimes the quantity borrowed and half as much as interest, and sometimes double the quantity borrowed.

(b) The average cultivator is not rich enough to undertake any permanent improvement except what they can effect by their own manual labour. Well-to-do cultivators sometimes take loans from Government under the Land Improvement Loans Act for making permanent improvements.

(c) In years of scarcity due to failure of monsoon, they apply to Government for loans under the Agriculturists Loans Act to purchase seeds and plough bullocks.

For paying land revenue, they generally borrow from professional money-lenders at interest from 15 to 24 per cent. Rates of interest in this district vary from 12 to 36 per cent. There is no fixed period for loans. Small loans taken by agriculturists are generally repaid within the year during the next harvest season. Security given for loans is generally some landed interest (either *raiya* holding or other interests in land). Standing crops are seldom pledged as security but in case of small loans specially of grains standing crops are kept in view as the principal security and the creditors generally realise the loans from the thrashing floor.

In years of scarcity Government generally issues big loans under the Agriculturists' Loans Act and also under the Land Improvement Loans Act. In case of the former, loans are given from Rs. 5 to Rs. 25 to each cultivator for the purchase of seed grains or plough bullocks and agricultural implements on the joint and several security of groups of villagers. In the latter case, loans are given according to the requirements of each case generally on the security of the lands sought to be improved.

The co-operative banks, where established, lend money to a limited extent to cultivators who are members of a recognised society.

The Imperial Bank of India or any joint stock or any indigenous bank have no dealings with cultivators. Their main bankers are generally the village money-lenders or merchants and dealers who live amongst them and know their circumstances fully well.

There are no organisations in this districts trading in fertilizers.

About a lakh of rupees may be sufficient for assisting agriculturists in this district.

There is really no system now rendering banking help to the agriculturists. They mostly depend on individual money-lenders and dealers. The chief defect in their system is that they sometimes charge excessive interest and keep no reliable accounts. In the present state of things, they constitute an economical necessity to the agriculturists and it would be well if possible to devise some system of control over them by legislation. With the growth of co-operative societies and banks, the importance of the *mahajans* will diminish.

There is no co-ordination amongst the various credit agencies even including the Government except the co-operative credit societies. There is little scope of co-operation amongst the individual professional money-lenders

2. As regards food grains, Palamau is not a surplus district and what is produced is generally consumed in the district. The chief marketable crops of this district are the oil-seeds (*sarso*, *til* and linseed) and lac. As soon as these latter crops are ripe for harvesting, the growers approach the dealers and ask for advance. More often the dealers approach the growers after informing themselves of the kind and quantity of the crops and go to the growers' places and pay reasonable advances and take possession of the harvested crops. The small dealers similarly obtain advances from the bigger and exporting dealers and in this way the produces find their way into the exporters' hand.

The general market rates no doubt influence the prices but advantage is taken by the dealers when any individual growers need money very urgently. As in that case they readily agree to sell their produce for a low price. There is, therefore, scope for improvement if any co-operative system or marketing can be introduced. These remarks apply to lac also, the most important produce of this district.

There are actually no facilities existing for marketing agricultural products. Chief facilities required in this district are good roads fit for wheel traffic connecting the interior of the country with the chief market places and the railways. Agricultural products are brought to the market in this district chiefly on pack bullocks, and these pack bullocks mostly belonging to the dealers and not to the growers. It is a sad fact in this district, that the majority of actual cultivators do not own bullocks of their own even for ploughing their fields but borrow bullocks from the dealers during cultivation and pay a heavy hire for them in the harvesting season.

2. (4) Banks and bankers play very little part during the process of marketing except what the merchants and dealers do through advances paid by them to the growers as explained above.

2. (5) No facilities exist for internal remittance through banks and bankers. The advances paid by merchants and dealers are paid in cash either through special messengers or to the growers direct.

2. (6) As there is no organised system, no defects can be pointed out and no suggestions for improvement can be made.

2. (7, 8, 9, 10, 11, 12, 13 and 14) Very little part is played by negotiable instruments in the internal trade of this district and therefore no suggestions can be made. The use of *hundis* is not prevalent except amongst a very limited number of Marwari merchants.

There is little scope for opening licensed warehouse in this district on the lines of the systems existing in Europe and America.

2. (15) I do not think there is any need in the present state of things for Government assistance in this matter.

3. For first class paddy land Rs. 125 to 150 per acre.

For second class paddy land Rs. 60 to 75 per acre.

For third class paddy land Rs. 30 to 40 per acre.

For first class *rabi* lands Rs. 100 to 125 per acre.

For second class *rabi* lands Rs. 40 to 50 per acre.

For third class *rabi* lands Rs. 20 to 30 per acre.

3. (1) The factors affecting value of lands are chiefly facilities of irrigation and vicinity of good markets with easy communications. Value of land is not much intrinsically affected by the different conditions mentioned in (a), (b) and (c). It is however considerably affected by existence of competition among purchasers and such competition generally exists in the vicinity of towns and in villages inhabited by well-to-do merchants and cultivators.

4. There are some restrictions on mortgage and transfer of agricultural holdings in this district imposed by the Chota Nagpur Tenancy Act. There are no land-mortgage or agricultural banks in this district. There is a branch of the Chota Nagpur Banking Association at Daltonganj which lends money on long-term credit if adequate security in the shape of mortgage or land or otherwise is furnished.

4. (1) In the present state of development of this district, I cannot suggest the creation of banking institution except the co-operative credit banks. Both the landholders and the tenants are mostly improvident and the creation of banks to finance such people does not promise to be successful.

4. (1) (a) No suggestions to make.

4 (1) (b) No suggestions to make.

4. (1) (c) No suggestions to make.

4. (2) The working capital of any mortgage banks that may be started should be drawn from deposits and from funds from central institutions as in the case of central banks of co-operative societies.

5. Without full and systematic enquiry this question cannot be answered.

The enquiry is being made.

6. The following subsidiary industries allied or supplemental to agriculture may be mentioned :—

(a) *Rice-milling*.—Small cultivators always mill their own rice and bigger cultivators and landholders generally get their rice milled by poor villagers generally widows, who follow this occupation as a profession and get 6 seers of paddy for milling one maund of rice. The milling is done with the country *dhenki*. There is no power rice-mill established in this district. For grinding wheat, barely and gram in ordinary stone mills they charge 4 seers per maund. There is one power mill at Daltonganj for grinding wheat and barely, etc., and this mill charges 10 annas per maund.

(b) *Dairy farming*.—There is no regular dairy farming but there are many people specially *Goalas* who keep a large number of buffaloes in the jungle and make ghee individually which they supply to the dealers and often take advances from the dealers before the rains, and supply the ghee after the rains. There is a fairly considerable business in ghee in this district which is exported to Calcutta and other towns by the *mahajans*.

(c) *Gur-making*.—In some parts of this district sugarcane is grown on a fairly large scale and the cultivators manufacture *gur* themselves and sell it to the local *mahajans* who sometimes pay advances to the cultivators. Generally the *gur* is brought to the open markets and sold to the *mahajans* for cash price.

Garden produce.—Ordinary vegetables are grown by some cultivators generally *Koiries* and sold by themselves in the weekly markets.

(e) *Cotton ginneries*.—There are no cotton ginneries in this district.

(f) *Sugar refineries*.—There are no sugar refineries in this district but there are some in certain villages in the Shahabad district belonging to the Sonepura estate of this district. In these refineries ordinary raw liquid *gur* is converted into brown sugar which is mostly exported to towns in the United Provinces.

(g) *Hand-spinning*.—There is very little of this industry in this district. Occasionally poor widows spin coarse yarn and supply it to the *Jolahas* (country weavers) for weaving.

(h) *Oil-pressing*.—A considerable quantity of oil-seeds such as *sarso*, *til*, castor seeds, linseeds are produced in this district which are mostly exported raw. The local *Telis* manufacture oil with country oil-mills which is just sufficient for local consumption.

Besides the above there is no industry allied to agriculture which is worth mentioning.

6. (1) Butter-making by the *Goalas* and cultivators who keep cows and she-buffaloes can be improved by introduction of improved churners.

There is room for establishing oil-mills on a large scale in which case oil-seeds will not have to be exported raw. The growers of oil-seeds will make larger profit and a considerable quantity of oilcake will remain in the district and will be useful both as cattle food and manure.

(2) There is considerable cultivation of castor plants in the district and eri-silk worm culture may prove a profitable occupation supplementing the income of the cultivators from their farm. Weaving is already a second occupation of many cultivators of the *Jolaha* class and they may add spinning chiefly by their women folk. Other classes of cultivators may be trained to this occupation, to give them work during their recess from agricultural work. Tanning on a medium scale may also be profitably introduced as tanning materials are available in abundance in this district.

(3) Working capital should, in the first instance, be raised by the promoters themselves and there should be co-operative banks for financing them according to requirements on moderate rates of interest.

7. I possess no information about the relation between the co-operative banks and the Imperial Bank of India.

No experience.

I have no idea about the additional capital required for financing co-operative movement.

As far as I know there is no competition between co-operative banks and other joint stock banks. There is, however, competition between co-operative banks created in the interior of the country and individual money-lenders who take up a hostile attitude towards the co-operative banks as they are sometimes compelled to reduce their rates of interest owing to the existence of the co-operative banks.

I think it is desirable to exempt genuine co-operative banks amongst agriculturists from liability to pay income-tax.

II. INDIGENOUS BANKING.

1. The indigenous banks and individual bankers carry on a purely money-lending business except so far that they sometimes make

advances of money for securing agricultural produce at concession prices for export.

2. Vide reply to question (1).

3. There is absolutely no organisation governing the different individual banks and bankers in this district in regard to the amount of capital, volume of business and their expenses and as far as I know there is no relation between them and any outside banks.

4. I have no information about the subject matter of this question.

5. The indigenous bankers lend money on long credit generally on security of landed property and on short credit on execution of hand notes or simple bonds. Sometimes they lend money on pawning of gold and silver ornaments.

It is their own savings from the income of their landed property of trading business.

They seldom receive deposits.

6. (i) The rates of interest vary from 12 to 36 per cent. When in kind, it is half as much and sometimes double the amount of grains lent. When money is lent as advance to cultivator or lac-growers for securing the harvested crops, the rate of interest sometimes comes to 36 per cent. or even more.

(ii) The only way to bring down the rates of interest in such cases is to organise co-operative marketing system.

(iii) Yes, if the rates of interest can be reduced, it would positively lead to the beneficial results as mentioned in the question.

7. (i) Yes, the indigenous banks are not liked by the people at heart though they cannot do without them.

(ii) Yes, the bankers are sufficiently protected by law.

(iii) I do not think that they require under present circumstances any additional facility.

(iv) Not always.

(v) The chief defect lies in not keeping reliable accounts and this cannot be effectively remedied unless the ordinary borrowers improve in intelligence and education.

8. (i) This kind of bankers can be made more serviceable to the community if a system of effective and regular supervision of their accounts by reliable officers can be devised. It will also be necessary to prescribe standardised forms of accounts and to enforce granting of receipts for all repayments made by the borrowers.

(ii) It is difficult to suggest any means of consolidating these individual bankers. They can be improved if proper supervision can be legally exercised upon them.

(iii) I do not think any special facilities should be given to this class.

(iv) They will take up a hostile attitude.

9. It is difficult to answer this question accurately. On the whole I think, making allowances for all sorts of losses, these indigenous bankers in the majority of cases, make a net profit of not more than 18 per cent.

10. It happens that they are obliged to refuse their clients on account of insufficiency of the security offered and sometimes they are short of working capital. In some areas there are such bankers with sufficient capital and there the rates of interest tend to go down and in some areas these bankers have not got sufficient working capital and there the rates of interest go up.

11. It is not possible or easy to link these indigenous bankers in the interior with the central money market or provincial capitals until they are sufficiently educated and advanced in their ideas.

(ii) Yes. I think the establishment of such a bank in each district is desirable.

(iii) This question cannot be properly answered before the experiment is tried. As far as can be anticipated, some amount of competition will be unavoidable, but the confidence of the majority of the indigenous bankers can be gained gradually by fair dealing.

12. (i) No, I do not think so, at least in this district.

(ii) No.

(iii) This question does not arise in this district.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. (i) There is one joint stock bank at Daltonganj—a branch of the Chota Nagpur Banking Association, Limited, the Co-operative Society's Bank and the Postal Savings Banks besides the indigenous individual bankers.

(ii) If the agriculturists of this district be financially assisted in all the agricultural operations and improvements of land, I think an additional capital of one lakh of rupees may be required.

(iii) Besides the institutions mentioned in answer 1(1) above, there are no other institutions for encouraging saving habit.

(iv) No.

(v) Yes, if Postal Savings Bank transactions are opened in the interior.

(vi) Up to a certain limit, the people spend some part of their savings on gold and silver ornaments for their women folk, but this tendency is sometimes exaggerated. At present the chemical gold and silver ornaments are coming to the market in large quantity and the poorer classes of cultivators generally purchase these cheap articles and so their savings in the shape of real gold and silver ornaments are being reduced. The tendency to spend savings on ornaments is decreasing to a great extent among all classes.

2. (i) Yes, postal cash certificates are popular among the literate classes and the only way to make them more popular is to increase the rate of interest to 6 per cent. as was originally allowed.

(ii) I do not think that five years' term of postal cash certificates need be changed.

(iii) Yes, where the Savings Banks exist.

(iv) The literate classes mainly.

(v) There should be regular propaganda for attracting other classes.

(vi) No competition seems to exist between Government and banking institutions and bankers in this district.

3. (i) The agriculturists of this district are generally not in a position to go in for Government securities and therefore no special facilities are required. They do not utilise the existing facilities for purchase and sale of Government securities through the post office.

(ii) I have no information about securities afforded by other financial agencies than Government.

(iii) Very few agriculturists have any surplus money left in their hands after payment of rent and debts due to *mahajans*. There are, of course, some big cultivators of higher caste who have a surplus which they generally invest in purchasing additional lands or in money-lending on the security of lands. There is no lack of candidates for such loans from them. Till such candidates come forward, they keep the money in their own hands. The *bantias* and other trading classes have also a tendency to acquire landed property and the profits of their trade, they often invest in landed property and sometimes invest the profits from landed property in extending their trade.

(iv) Yes, they often do, and on prevailing rates of interest which vary from 18 to 36 per cent. The surplus money they invest as stated in answer 3(iii). Not possible to answer this part of the question without elaborate economic enquiries.

4. (i) The cheque habit is growing but very slowly.

(ii) The abolition of stamp duty on cheques has, I am informed, increased the number of cheques issued by the banks.

(iii) I do not think any artificial means will tend to promote the cheque habit, which chiefly depends on increased savings and increased deposits in banks.

(iv) Yes, I would recommend use of vernacular scripts in banking in order to make it popular amongst non-English knowing literate classes.

5. (i) Yes, it is of very slow growth.

(ii) Because banks were few and the savings have been small.

(iii) Propaganda may be of some use, but unless the economic conditions of the people are improved and their savings increased, it will not achieve much practical result.

(iv) I can give no answer. No new branch of the Imperial Bank has been opened in this district.

Additional Questions.

1. The inhabitants of Palamau are backward in the banking activity compared with the advanced parts of India. Backwardness of education and illiteracy appears to be the chief reason.

2. There are no branches of joint stock banks in this district whose head offices are outside the Province.

3. (a) Yes; it will be a good thing, if the system of accepting current accounts be extended to mufassil post offices on which the customers can draw by cheque, and it will be a preliminary step taken by the Government which will prepare the ground for establishing of private banks commanding confidence in rural areas.

(b) The extension of the banking function of discounting *hundis* and other negotiable instruments to post office may be made only in cases of such merchants and money-lenders who have got substantial deposits in the Postal Savings Banks accounts.

4. Yes, there is scope for such banks and credit agencies as pawnshops lending on valuables, they should be merely subject to some State regulations and not State-owned or State-aided.

5. My experience is that *mahajans* generally keep separate accounts for trading and banking transactions, but occasionally they mix up both. I have found instances in which a merchant having running trading transaction with a customer, has sometimes given cash loans of small amounts to the same customer, and entered the transaction in the trading accounts. They however rarely do this, if the cash loan be a large one.

Separation of the accounts is desirable in all cases and will inspire more confidence in the money-lending business.

6. There does not seem to be any practical necessity for the protection suggested in this question.

7. I do not think it desirable to set up a class of licensed money-lenders, but if any State regulations for the purpose of control and supervision be introduced, it will be necessary to register money-lenders who will carry on their business in the interest of agriculture and small scale trade and industry and they may be given special facilities in the shape of leniency in the law of limitation and court-fees, and income-tax and their lending should be restricted to productive and land improvement purposes only.

8. Yes, it sometimes happens, though in limited areas only, inhabited by well-to-do persons hankering after acquisition of land, where the price of land is forced up by competition to a limit, which is not justified by the returns therefrom.

9. They generally obtain their finance from professional money-lenders. I cannot suggest any special facilities to be given to them except the general banking facilities contemplated in the whole enquiry.

10. As far as my experience goes, not much use is made of the Usurious Loans Act. The courts generally go by the terms of the contracts entered into between the parties and do not deviate from the conditions of such contracts, unless there is strict proof of any undue influence or fraud. Where there is no written contract, the courts generally allow interest at 12 per cent. rate. The difficulty in applying the Usurious Loans Act rigorously lies in the fact that the provisions of the Act are themselves very vague and general. I do not know of any other restrictions on usury in force.

Oral Evidence.

Chairman : You are a retired Deputy Collector and at present you are the manager of the Palamau Wards and Encumbered Estates?—Yes. I am manager of two Wards estates, Chainpur and Sonapura, and one Encumbered Estate, Bistrampur.

Prior to that have you had experience of the Palamau district?—Yes, I have general experience of the district and special experience of the estates under my management. I was a Deputy Magistrate in Palamau for some time.

So you claim to have a considerable knowledge of rural affairs in that district?—Yes, to some extent.

Perhaps you have heard the last witness saying that there was a difficulty that the banks feel in lending money to proprietors of landed interests in Chota Nagpur owing to the operation of the Chota Nagpur Encumbered Estates Act which permits of reduction of interest. Is that your experience also?—Yes.

Could you tell us how the estates management deals with such cases?—The Encumbered Estates Act provides that interest should not be charged more than 12 per cent. and compound interest should not be charged.

If you found when you took over charge of the estate there were loans outstanding to respectable parties at more than 12 per cent. interest would you ordinarily reduce the rate of interest?—If a sum more than the principal amount has already been repaid I would reduce the rate especially if it is compound interest.

Supposing a land mortgage bank was set up here would it be reasonable for a policy to be laid down that anybody who had borrowed from that land mortgage bank, which would be to some extent

controlled by Government, should not be allowed to have their estates brought under the Encumbered Estates Act?—The proprietors will have to make the choice between borrowing from the established land mortgage bank or taking his chance later on of coming under the provisions of the Encumbered Estates Act.

What do you think of such a proposal?—Nowadays the tendency is not to take up the estates under the management of the Encumbered Estates Act indiscriminately. Only old and historic estates are managed that way, if necessary.

You say the authorities are much more chary at present of taking those estates under the Encumbered Estates management?—Yes.

Is the Board of Revenue the final authority in the matter?—Yes.

Professor Batheja : Does the existence of such provisions in the Encumbered Estates Act tend to restrict the credit of the zamindars in your district?—It does to some extent.

Chairman : Does it restrict to an undesirable extent?—There is no difficulty in the way of obtaining loans but when after calculation of compound interest these sums reach a figure much more than the principal lent, then these zamindars seek protection under this Act. Sometimes they do so, when their estates are on the verge of being sold.

Professor Batheja : Are the bankers and *mahajans* reluctant to advance money to zamindars because of the fear of the Encumbered Estates Act?—They are not reluctant to lend, but raise the rate of interest. They become nervous when they find sometime after they have advanced the money and that the principal and the interest has amounted to a huge figure, as this is the time when the zamindars seek protection under the Act.

Is this fear due to the provisions of this Act which allows reduction of interest, as distinguished from dealings with other customers?—Yes, it is due to that.

Chairman : For what purposes do the proprietors borrow as a rule?—In some cases they find themselves unable to control their own expenditure.

So, you are of the opinion that their indebtedness is largely due to lack of capacity to manage their own affairs?—Yes.

Professor Batheja : Do you think such a class of person deserves to be saved by the State?—All of them are not like that, of course.

Chairman : Is the object of the Encumbered Estates Act to bolster up the old historic families or is it to protect the *raiya*s against a new class of proprietor?—It was also one of the objects of the Act to protect the tenants from outsiders who have no sympathy for them.

Is it your experience that the outsiders treat their *raiya*s worse than the old established families?—So far as my experience goes of Hazaribagh and Palamau no big outsider has ever been able to have

extensive dealings with the zamindars there and this was chiefly due to the operations of the Encumbered Estates Act.

So the question does not arise then?—No.

You speak of people borrowing from professional money-lenders to pay land revenue. Are you referring to proprietors of land?—I am only referring to the payment of rent by the cultivators and other tenants under the landlords to the latter.

Is not in actual practice the ordinary cultivator able to meet that demand without borrowing?—Only in bad years they have to borrow like that.

When is the kist for the rent?—The first kist is about September just after the *bhadoi* harvest. The next is in *Paus* or about January, and the third is *Chait* or about March and April.

But the rates of rent in the Hazaribagh and Palamau are not very high, are they?—No, they are not high.

You say that cultivators borrow grain. Is grain borrowing more common than cash borrowing in those districts?—Yes.

Do you see any prospect of opening grain banks there?—Yes, they will be successful, if opened.

Are there any grain banks in existence at present?—No.

Is there much extension of the co-operative movement in Palamau yet?—In the northern part of the district bordering on Gaya and Shahabad, there have been several societies for some time now but not in the southern part of the district.

Is it then in the southern part that most part of the grain lending is going on?—Yes.

Would you agree that it would be desirable to start co-operative credit in the southern part of the district mainly in the form of grain banks?—Yes.

I notice you say that about a lakh of rupees would be required for assisting the agriculturists in the Palamau district. I see it is a very modest estimate, but for what purposes would you utilise that amount? Is it for the redemption of debt?—Partly for that and partly for improving the land, purchase of cattle, etc.

How did you arrive at this figure of one lakh of rupees?—That is only my idea judged from the extent to which *takavi* loans are granted in the district.

Is there a great scope for improvement of irrigation in your district?—Yes. The district is more or less undulating and by erecting bunds here and there it will be possible to improve the irrigational facilities.

You will agree that several such schemes have not proved successful?—I agree. They fail only when rivers are blocked and bunds erected across them. But this is a simple process. We can dam up

depressions in the district and these, I think, could be cheaply and successfully managed.

Do you know the Kanke farm?—Yes, I have seen the Kanke agricultural farm.

What do you think of utilising the scheme prevalent there?—Yes. I have succeeded in introducing that scheme in one of the farms under the estate management and another elsewhere.

Do you think that most of the paddy produced in the Palamanu district is consumed in that district itself?—Yes. Sometimes rice is imported from Shahabad and Gaya from the canal irrigated area and sometimes from Burdwan also when the supply from nearer area is not adequate.

R. B. Jalan : Do they grow anything else other than paddy?—Yes, they do, such as oil-seeds of all sorts, linseed and ground-nuts for example, besides *bhadoi* and *rabi* and some pulses.

Chairman : You say that money is advanced by dealers in oil-seeds to cultivators. Does that make the producer or the cultivator in any way bound to sell at any particular price?—Practically it comes to that.

Are the dealers in oil-seeds also money-lenders?—In some cases they are.

Has not the producer got an open market to sell his produce?—It is almost rare. These people who advance money will in a way keep watch and ward over the crop and take away the crop soon after harvest. They are very watchful about that.

Am I right in thinking in so far as that is a defect in the marketing system it could be remedied best by improving the internal communications in the district?—It might improve the condition partly.

You cannot suggest any other form of action?—If co-operative societies would take up the work of collecting the grain and then sell them for the benefit of the producers when the market is favourable, that would be better. It will no doubt be a strenuous job to store them up and look after the grain.

Do you think it is reasonable to apprehend that such societies, unless they were extremely well managed, will result in loss?—There is great risk of that, no doubt.

Professor Batheja : Are there *golas* in Palamanu district like the ones you see in Bhagalpur and Patna?—There is one at Daltonganj.

How does that *gola* conduct its business?—People bring their produce such oil-seeds, gram, ghee, etc., and these are kept in the *gola*. Certain charges are paid to the *arhatdar* and he manages the sales.

Does the *arhatdar* advance money to these people on the security of the goods stored with him?—Sometimes he does.

Up to what value does he advance against the security of the goods stored with him?—I have not made particular enquiries about that.

Are there other *golas* also of that description in other parts of the district?—There are some, but they chiefly deal in lac and not food grains.

Chairman : You think there is scope for oil-mill industry in Palamau?—Yes.

Are there any oil-mills there at present?—No.

Within the next ten years how many oil-mills do you think could be started there?—About four or five could be started.

R. B. Jalan : Have you got any idea of the extent to which oil-seeds are exported from the district at present?—I cannot give an accurate estimate, but I know large quantities are being exported at present.

Chairman : And you also advocate the extension of rearing eri-silk worms?—Yes.

Would that require any finance?—Not much. I have just started in my estate that industry. I do not think any large amount of capital is required for that industry.

Mr. Hodge : Is there a good deal of money lent out on the *kamia* principle?—Yes, to some extent, they are still in existence. Small amounts are advanced to workmen which will compel the latter to work in the estate of the zamindar who advances the money. But when they leave the service of the zamindar their money is returned.

Is that practice decreasing now?—Yes, it is decreasing now.

Is it possible that the Kamianti Agreement Act is more or less a dead letter?—So far as I am aware no fresh agreements are being executed.

Chairman : But has the Kamianti Agreement Act had any effect at all?—It has removed the worst factors. The moral influence of the Act is quite evident.

Are the *kamias* able to repay their debts and start as free labourers?—Yes, they are doing so in many cases.

Speaking about the indigenous bankers you say that they seldom receive deposits. Could you tell us how many indigenous bankers are there that you know of who receive deposits and use them for their money-lending business?—There are not many who receive deposits in a banking way.

So you say they may get some, but as a rule they do not seek deposits?—But they do not get deposits also.

Professor Batheja : What is the reason for that? Is it because the public have no confidence in them?—I cannot say, but evidently a man who is able to earn any money finds better means of using his money.

Or is it a fact that they deposit their savings in the post-office savings banks and savings banks of co-operative societies?—English-

educated people always deposit their surplus money in the post-offices. Even the co-operative banks do not get any deposits.

Mr. Hodge : Am I right in saying that Palamau is one of the latest districts where the co-operative movement has been started?—Yes.

Chairman : In the majority of cases you say that the indigenous bankers make a net profit of about 18 per cent. per annum. Are you thinking of the ordinary village *mahajans* when you say indigenous bankers?—Yes.

Have you got any basis for that estimate?—Allowing for all their expenses and losses from bad debts, I think they are able to realise that amount.

Have you ever examined their books of accounts?—I have never examined their books of accounts, but I speak that from my personal experience with them.

So your estimate is really the result of a large number of impressions and not of detailed study?—I have not made a special study of the thing.

Professor Batheja : Do you think the accounts of the indigenous bankers are not kept properly?—Respectable indigenous bankers keep their accounts properly but some petty bankers really do not keep any accounts at all worth the name.

Are their accounts badly kept? Is there unfair dealing on the part of the *mahajans* with their clients?—The accounts maintained by the petty *mahajans* are very unreliable and I should think that their dealings with their clients are also unfair.

Is that also an impression?—In some cases I have also known it from my own personal experience.

R. B. Jalan : How have you come to know that there is unfair dealing?—My tenants have told me so.

Professor Batheja : Do you think there is such serious trouble with them that official supervision is necessary to check their dealings?—If we really want to improve the condition of the village *mahajans* I think some such check is necessary, and would be useful.

Would it not be better to make them more useful to society by giving them some facilities?—Yes, that could be done.

What facilities would you suggest?—They should be given some special facilities to recover their dues.

Do you think that in exchange for the facilities given to them they would be willing to accept some control and supervision?—I think so.

Chairman : You say that the amount of savings invested in gold and silver ornaments is somewhat exaggerated?—At present there is comparatively very little investment of that kind in the villages.

Is that getting less and less?—I should think it is.

Is it because of the fact that you are able to get substitutes of things that look like silver and gold?—Yes.

Do you think there is much burying of coins in your district?—That is fast becoming obsolete. Only helpless and poor widows who have any spare cash do so.

Lac is extensively grown in Palamau?—Yes.

On the whole are you getting good prices for that?—Yes, except during the last three or four years owing to failure of production.

What use do the raiyats make of profits earned from the lac trade?—In prosperous years the majority of the actual growers of the lower classes spend the same very lavishly on drinks and other vices. Growers of higher classes and dealers who make the most profit spend it in repaying debts or extending their business.

Professor Batheja : Do you think that in prosperous years the people who earn much profit out of the lac trade could be induced to purchase postal cash certificates?—I think it could be tried. Propaganda is required for that.

Do you not think that during the War there was a great sale of these postal cash certificates?—Yes.

Who did all the propaganda during the War?—It was done partly through official and partly through non-official agencies.

Chairman : You say that your experience is that *mahajans* keep separate accounts for their trading and banking transactions. What is your experience based on?—In dealing with the accounts of the encumbered estates I have often come across their account books and find that they have separate accounts.

Those *mahajans* of whom you are speaking of are apparently big people?—Yes, they are.

Could you suggest a figure for the working capital of the *mahajans* you are thinking of?—They may be people having a working capital of Rs. 20,000 to Rs. 50,000.

You have had no opportunities of seeing the account books of a *mahajan* whose dealings are less—a Rs. 10,000 man for example?—There are some people whose capital is small who deal in cloth as well as money-lending and they also keep separate accounts.

Could you say definitely that in Palamau district the money-lenders whose capital is Rs. 10,000 or more usually keep separate accounts for trading and money-lending?—I think it is so. I have not examined the account books of these people except in connection with my work of the Encumbered Estates.

Professor Batheja : You suggested that some facilities may be given to the licensed *mahajans* and you also made some suggestions in your memorandum dealing with registered money-lenders. Will you kindly explain what you mean by leniency of law of registration and court-fees? What have you exactly in mind?—The court-fee stamps

required under law may be made less and the period of limitation with regard to negotiable and other instruments may be extended in the case of registered *mahajans*.

You would extend these facilities only to registered money-lenders?—Yes.

And you say some facility may be given in the shape of income-tax. What is your suggestion in regard to this?—I suggest that the assessable minimum of income may be raised a little in their case.

And you are in favour of restricting their business to productive land improvement purposes only?—Yes, that is my suggestion.

R. B. Jalan : You said that these *mahajans* keep separate accounts for trading and money-lending purposes. Are these accounts kept in separate volumes of ledgers or in one and the same ledger, in a different folio for example?—There were instances of both.

Chairman : In the case where both the accounts are kept in one and the same book there will be no difficulty for a man of average intelligence to find out which transactions refer to trading and which to money-lending?—I do not think there will be any difficulty in finding that out.

Babu JANOKINATH GUPTA, Managing Director, Chota-Nagpur Banking Association, Ltd., Hazaribagh.

Replies to the Questionnaire.

AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

1. (a) The agriculturists take advances in cash or grains or both during cultivation from the village *mahtos* and *baniyas* of their own villages or other well-to-do agriculturists and *baniyas* of the neighbouring villages. The Marwaris and Kabulis also lend money. Where there are co-operative societies the members of such societies receive advances from such societies.

(b) For capital and permanent improvements for seeds, bullocks and implements advances are sometimes taken from Government under the Land Improvement Loans Act and the Agriculturists' Loans Act.

(c) For other special needs also small advances are taken from the *mahtos*, *baniyas*, Marwaris, etc.

The rates of interest charged by the *mahtos*, *baniyas*, Marwaris, etc., for cash advances is half anna in the rupee per month, but where the amounts are large the interest charged is sometimes $4\frac{1}{2}$ pies in the rupee per month.

For advances taken in the shape of grains the borrower has to give $1\frac{1}{2}$ maunds for each maund taken. For advances taken for the purpose of seed 100 per cent. is charged and in both the cases compound

interest is charged in case of default. The advances taken from Government bear interest at one anna in the rupee per annum.

The members of the co-operative societies have to pay 2 annas 6 pies for each rupee per annum.

For advances taken from *mahtos*, *baniyas*, Marwaris, etc., furnishing of proper securities is not generally insisted upon. But for large amounts *bhugat bandha* and *rehan* deeds are executed. The small advances are generally recovered from the next year's crops.

For advances from Government the lands of the borrowers are treated as securities and the advances do not exceed the value of the lands.

For advances taken from co-operative societies formal securities are not taken but in case of default the money is realised by attaching the crops of the lands of the borrowers.

The agriculturists' loans are given by Government in large scale generally during the years following general failure of crops.

There is no branch of the Imperial Bank in this district.

The joint stock banks do not advance loans to agriculturists as their lands are not transferable so as to be held in security. But small advances are sometimes given on personal securities of respectable persons.

The co-operative banks advance money to the societies on the joint responsibility of the members of the societies concerned.

The village *mahtos*, *baniyas* and other money and grain dealers, such as Marwaris, Kabulis, play an important part in the agricultural finance of the district.

No estimate of the capital required for the various purposes can be given without detailed enquiries.

The principal defect in the present system is the high rate of interest charged by the private money-lenders but the people are accustomed to pay such rates. They do not grudge as they receive money whenever they require it without any formality. Any reduction in the rate would however be welcomed by them. The rates of interest charged by the co-operative banks are also high and might be reduced. Arrangements should also be made for speedy disposal of the loan applications by the co-operative banks.

There is some co-ordination amongst the *baniyas* and Marwaris. There is no co-ordination amongst the other credit agencies including Government.

The principal crops are brought in small quantities to the weekly markets held in the villages or near about them and sold in retail by the cultivators. The surplus quantities are purchased by middlemen and dealers and sent by carts or lorries and pack bullocks to important trade centres to approved *mahajans* and big shop-keepers.

Forming of pool does not seem to be possible.

In the large trade centres the merchants and dealers have their own constituents in the mufassal to whom advances are paid by them. Such constituents discharge their liabilities faithfully.

The mufassal constituents and the merchants and dealers in the trade centres play an important part in the process of marketing produce of the district.

For internal remittance within the district there are post offices throughout the district. The Chota Nagpur Joint Stock Bank, head office at Hazaribagh, has a branch at Giridih and there are co-operative banks at Hazaribagh and Giridih. People may take advantage of these banks also in making remittances within the district. In some parts of the district the post offices are few and far between. The number of post offices may be increased. In the internal trade of the district negotiable instruments hardly play any important part.

I have no suggestions to make for more extensive use of bills.

Hundis are of two classes—

Namely *darshani* and *mudati* current in this part of the country. *Darshani* means payable immediately at sight and *mudati* means payable immediately after a stated period.

The following amendments are suggested in the Negotiable Instruments Act, sections 105 and 106—"The reasonable time of giving notice of dishonour may be extended or omitted."

The following addition may be made to section 118.

Clause (h)—"The executions and endorsements are duly made."

Hundis emanating from this district are not all discounted here. They are sometimes sent to other centres. The use of *hundis* is gradually dying out. They are generally held by merchants.

I think ownership of goods may be made without any instrument. It may be made simply by letters or by delivery of receipts.

Instruments of ownership of goods—Licensed warehouses.—I do not think that licensed warehouses for sale of agricultural produce of the district are desirable. The establishment of such warehouses is likely to raise prices and put the people to inconvenience. At present the agriculturists do not feel any difficulty in disposing of the produce of their lands.

The value of land per acre for different kinds of crops in this district is as follows:—

Paddy lands—

					Rs.
1st class—	...	...	...	...	25
2nd do. —	...	...	...	...	18
3rd do. —	...	...	...	...	12

Taur land—

1st class—	...	...	...	...	25
2nd do. —	...	...	...	...	6
3rd do. —	...	...	...	...	2

These rates were arrived at by Settlement Officers during the last settlement of the district.

Different rates are sometimes adopted by the Land Acquisition Officers, considering the special circumstances of the lands.

For revenue-paying lands which are sold free of encumbrances the value is 20 per cent. or more of the net income but the value depends upon competition at the time of auction.

For lands sold in court decrees the value is generally at 15 years' purchase specially for lands in the Ramgarh estate where they are reasonable under certain contingencies. In this case also the value depends upon competition.

For lands sold by private negotiation the price is fixed by mutual agreement—generally 15 times.

The custom prevailing in the Ramgarh estate, which is the proprietor of about two-thirds of the whole district, about resumption of landed properties under certain contingencies is an impediment to mortgage of lands. The Chota Nagpur Encumbered Estates Act is a great impediment to mortgage of landed properties of big zamindars. *Raiyati* holdings in this district are not transferable except to persons of the same caste. This is an impediment to mortgage of *raiya*ti holdings.

There is no special land mortgage bank or agricultural bank in this district. I do not think that any such banks are required in this district. The Chota Nagpur Banking Association, Limited, sometimes gives long-term loans on mortgage of landed properties when the securities are found to be sound.

Villages of the Ramgarh estate, which are not under direct management, are divided into tenures or lots, each comprising several villages. Each such lot was originally settled with one or two persons on a "lump sum rental." The villages are now in the occupation of different persons. Some of the villages also are in the occupation of different shareholders. In the *khewat* (which is a part of the record-of-rights) of each village the names of the different persons and their shares are recorded but the rent and cesses payable for the village itself and the shares are not specified in it. The rent and cesses payable for the entire lot only are entered with remarks that the amounts are payable for the lot. It would be a great improvement if the rent and cesses payable for each village and each share in it are entered. This would avoid possibilities of disputes and counter-claims.

The process of foreclosure may be simplified by doing away with the cumbrous process for making the decree absolute. The decree may be made absolute at the time of passing it.

5. Devising measures for the increase of credit facilities to the agricultural classes do not seem to be absolutely necessary. If however, considering all the things, it be decided to devise such means it will

not be possible to frame accurate estimate of the indebtedness of the agricultural classes. There are always fluctuations in such indebtedness. In my opinion 75 per cent. of the agricultural classes are indebted. If considered necessary, an estimate of the indebtedness of the agricultural classes can be obtained with reasonable accuracy in the following manner :—

(a) Chaukidari tahsildars may be deputed to make such estimates at the time of collecting taxes ;

(b) in the coming census statistics may be collected and columns may be added to the return of villages for this purpose.

In addition to the purposes stated in (a) to (b) debts are sometimes incurred for reclamation and other improvements of lands, building of houses, starting and carrying on business.

The debts are due more or less to all the creditors mentioned.

I have already stated above what interests are charged by the different classes of creditors.

In the cases of debts due to Government and the co-operative banks certificates and awards are resorted to when required. Other creditors have to take the help of the courts if they fail to realise their dues amicably at the time of harvesting, which they generally do.

So far as my information goes, efficient farmers are sometimes turned into tenants for periods, etc.

This process takes away from the actual cultivator the incentive to produce more and in efficient and better manner.

6. The agricultural classes have hardly any interest in small industries mentioned here except in garden produce and hand-spinning.

The agricultural classes seek work in the mica mines and collieries when they cannot make full use of their time in the farm and they get good wages there. They also sometimes go to work in the tea gardens and railway lines. I suggest that small societies may be established in each village for the purpose of hand-spinning, etc., and for these purposes Government may give loans without interest.

7. There is no Imperial Bank in this district. The co-operative banks of this district have cash credit accounts in the Chota Nagpur Banking Association, Limited, which is a Joint Stock Bank.

The co-operative banks have also cash credits in the joint stock banks and in the Provincial Co-operative Bank. They sometimes require additional finance. If the amounts required exceed the cash credit limits they borrow from the Provincial Co-operative Bank.

I cannot give an estimate of the amount of extra capital required for financing the co-operative movement but I think that so long as the giving of advances of money by the co-operative societies is confined to their own members, additional capital is not required.

There is sometimes competition between the co-operative banks and the joint stock banks in the matter of discounting railway receipts.

The growth of the co-operative movement is likely to be stimulated by granting concession as suggested here. But so long as lending of money is confined only to the members of the co-operative societies the additional funds may not always be usefully utilised.

II. INDIGENOUS BANKING.

(1) An indigenous banker transacts business of various sorts. He cultivates lands—either his own lands or lands of others held by him in *rehan* or *adhbatai*, does carting business, sells cloth, grains and other foodstuff and miscellaneous goods, deals in mica and coal, lac manufactures and sells bricks and lime, collects and sells forest produce.

(2) An indigenous banker lends money and grains to the agriculturists—funds permitting—he also lends money to small traders and contractors.

(3) There is no organised institution of the indigenous bankers. Each individual banker does his business independent of others but he does the banking business jointly with other business.

The details (a), (b) and (c) cannot be answered.

If one indigenous banker is short of funds he gets temporary help from others. There is no Imperial Bank in this district and the co-operative societies do not lend money to those who are not their own members. The joint stock banks do not object to help an indigenous banker if proper and sufficient security is offered. Large advances are however not thought desirable as there is chance of loss if an indigenous banker seeks protection under the Insolvency Act.

4 and 5. As regards *hundis* the forms, etc., are given in answer to question 2 under head I. In cases of small transactions *bahikhata* account system is much preferred.

Regarding raising of funds, the answer to question under head I may be seen. Nowadays the indigenous bankers in the interior do not receive deposits.

Rate of interest allowed on deposits.

As regards rate of interest the question has already been answered. The rates of interest charged by indigenous bankers may be brought down if numerous agricultural banks are established in villages within the easy reach of the cultivators in all parts of the district.

The reduction of such rates ought to confer great benefit on the agricultural community, but it is doubtful whether all the cultivators would make proper use of the savings as they are fond of spending money beyond their means on marriage and other social ceremonies.

7. Yes, there is general prejudice against the indigenous bankers but the agriculturists would still like to get the help of such bankers even if cheaper facilities are available as they get money and grains from indigenous bankers, whenever required, without undergoing technical formalities.

There is no special provisions of the law to protect the indigenous bankers.

So far as known the dealings are conducted on sound lines.

8. I have no suggestion to make.

No.

It is self-evident that introduction of any new measures in their operations would not be welcomed by the indigenous bankers.

9. I cannot make any idea.

10. If an indigenous banker is short of funds he manages to meet the demand by taking temporary help from others. They are sometimes obliged to refuse advances on account of insufficient securities.

11. I do not think so.

This district is still backward. It does not seem advisable to establish banks in the interior with local directorate.

12. As the indigenous banks do several sorts of business simultaneously their money is always employed somehow or other.

I believe that no money is flowing to the provincial capital.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. The shops held by the indigenous bankers in some large stations, the post office savings bank, the joint stock banks and the co-operative banks are the only existing banking resources in this district.

Unless there are new enterprises additional capital does not seem to be required.

Post office savings banks are, properly speaking, the only existing institutions in the interior where the savings of the people can be invested.

Compared with the area of the district the number of post offices in it is small.

The number of post offices may be increased or agricultural banks under the supervision of Government may be opened to improve the facilities in the interior places.

The people of India in classes of life have a great liking for investment in silver and gold. They make ornaments, utensils etc., of these precious metals and use them until they are compelled to raise money by pawning or selling them.

2. Postal cash certificates are popular in this district but they are not yet fully known by the people in the interior places. Their usefulness and advantages may be made more widely known through the village chaukidars to whom full instructions may be given at the chaukidari parades.

The interest rates may be raised and the minimum amount, for which a cash certificate is available may be reduced to Rs. 5.

The number of savings banks may be increased.

Investment in the savings bank is not resorted to by any particular classes of the population.

The introduction of the postal certificates has no doubt been a matter of competition between Government and the banking institutions but the extent of the loss which has resulted in the business of the latter cannot be estimated.

3. Government securities are now purchased through the Imperial Bank and other banks and the post offices.

As cash certificates bear higher rate of interest special facilities to the small agriculturists and the small investors for purchase of Government securities do not seem to be necessary.

Securities other than Government securities are hardly purchased by the people of the mufassal.

Unless the money coming to their hands by sale of produce, etc., is large, the people do not care to invest it. They sometimes keep the surplus money in underground holes or use it in taking *rehans* of lands and improving the condition of their houses.

4. Although the stamp duty on cheques has been abolished there has not been growth of cheque-habit amongst the merchants and the public in this district. The depositors of the banking institutions, merchants and literary men use cheques.

Vernacular scripts may be used in banking.

5. Yes.

The principal reason of this is that the financial condition of a large majority of the people is not good.

Unless the savings are sufficient and the financial condition of a family is good, educating the people to invest their savings will be of no good.

There is no branch of the Imperial Bank in this district.

At Dhanbad there is a branch of the Chota Nagpur Banking Association opened several years ago. The opening of a branch of the Imperial Bank at Dhanbad affected the business of the former to a certain extent.

Replies to the Questionnaire.

1. Yes. General illiteracy among the native-born inhabitants seems to be one of the principal reasons.

2. No.

3. (a) The extension suggested may be made.

There are not many subdivisions in this district, some other post offices may be selected for this purpose.

If this is done there would be no necessity for private banks in the interior.

(b) Linking of the indigenous banking system as exists at present with the post office banking system would not I think be possible.

4. This is done at present and I think Government interference is not called for. There is no scope for such banks and other credit agencies.

5. So far as my experience goes separate accounts are kept.

6. I do not think so.

7. In my opinion it is not desirable to set up a class of licensed or registered money-lenders.

8. The restriction on the sale of agricultural lands is an impediment to such investment.

9. They generally take loans from indigenous bankers.

10. I am not familiar with any use made of the Usurious Loans Act.

Oral Evidence.

Chairman : You are the Managing Director of the Chota Nagpur Banking Association?—Yes.

How long have you been connected with the organisation?—For about five years.

And prior to that?—I was Assistant Manager of the Ramgarh Wards State for five years and before that General Manager of the Wards and Encumbered States for several years in Hazaribagh.

How did you come to get the post you now hold? Had you any banking experience anywhere?—I got the present post by election.

From among the directors of the bank?—Yes.

Had you been a director of the bank some time before you became the managing director?—No.

Mr. Hodge : Is this an honorary office?—I get an honorarium.

Are you elected every year?—Yes.

Chairman : You say that the joint stock banks do not advance loans to agriculturists. Do you mean by that loans to actual cultivators?—Yes.

I think your bank does advance to some extent to proprietors?—Yes. And to agriculturists we sometimes give loans on personal security of respectable men.

You say that one of the difficulties of lending money to the big zamindars is the Chota Nagpur Encumbered Estates Act. What is the difficulty?—Sometimes they take large amounts of loan and they are offered protection under the Encumbered Estates Act. In that case we lose much interest. The Manager has power to reduce the interest.

To what extent?—Sometimes he attempts to reduce it even to six per cent. We preferred an appeal in one case to the Deputy Commissioner and got 3 per cent.

What is your ordinary rate of interest for lending to the people who are likely to come under the Encumbered Estates Act?—From Rs. 5,000 upwards we charge 1 per cent. per month and below Rs. 5,000 the rates are from Rs. 1-2-0 to Rs. 1-8-0.

Is a large part of your business giving loans to landed proprietors?—It is.

Is that business carried on not only in the Hazaribagh district but also in other districts of Chota Nagpur?—Yes.

In all the centres they do a considerable amount of business in lending to proprietors or to big tenure-holders?—To tenure-holders and zamindars.

Your Manager at Ranchi told us that there was not much of this mortgage business?—Of course, at Ranchi it is rather less than in other districts.

What is the reason for that?—We are afraid of the Encumbered Estates Act.

Then you say it would be a great improvement if the rent and cesses payable for each village and each share were entered in the record-of-rights?—Yes.

Is it not quite easy to ascertain from the cess department of the Deputy Commissioner what rent and what cess is paid?—There is no such record nor is the information available in the Deputy Commissioner's office. Of course the valuation can tell us what the cess ought to be but if the shares are recorded in the *khewat* it would be a very good thing. The extent of shares are noted but the rent payable for each share is not noted.

Is there any practical risk in granting a loan arising from this point that you have brought forward?—If we know for certain what is the share of the tenure-holder we can deal with his case. Sometimes it happens that we lend money and we have to go to the court to get a decree and the property comes on our shoulders and at that time it is difficult to pay to the Ramgarh Estate what is actually payable for rent and cess for that share and sometimes we have to make payments for the defaulting shareholders.

Then you speak of the cumbrous process for making the decree absolute. Could you explain more clearly what is the difficulty?—If the decree as soon as it is passed is made absolute it may be convenient to the decree-holder; as it is he has to wait for some months to get the decree absolute.

What is the period?—Not more than six months. ...

During which period the judgment-debtor could raise further objections?—Yes.

Does he ordinarily raise further objections?—Yes.

Are these objections usually disallowed?—Of course if we could fight out the case, but there are further delays.

You say that there is some competition between the co-operative banks and the joint stock banks in the matter of discounting railway receipts. Does a co-operative bank deal with railway receipts?—Yes but it is becoming less and less. Last year they had only one railway receipt. At Purulia once I heard that the co-operative bank was very anxious to take away that business from us by charging less commission.

Your point is that it is a form of banking which the co-operative bank should not touch?—Yes.

Could you describe precisely what the kind of business it is?—Senders of goods at Calcutta or elsewhere instead of sending the railway receipts to parties send them to us with instructions to realise the money and then to deliver the railway receipts to the parties and for the trouble we take we get commission.

Professor Batheja : Did the co-operative bank at Purulia try to do this business for their own members or for the general public?—For the general public.

Why did they fail?—The faith of the people was rather on the Chota Nagpur Bank.

Mr. Hodge : Did they actually try in Purulia or did they just contemplate?—They did do it.

Professor Batheja : Are you opposed to the co-operative central bank doing this class of business?—Yes. I think that is not their legitimate business.

Why?—The principle on which co-operative societies were started is to co-operate with the people and not with the merchants and others. These railway receipts concern the merchants.

Suppose by that the merchants make more profits then what is the harm?—There is no harm but the business of the Chota Nagpur Bank is affected thereby.

Chairman : Would you lay down that where there is an existing bank doing this class of business it is improper for the co-operative central bank to indulge in a business for which there are facilities already?—Yes.

Professor Batheja : You think that they should confine their efforts to financing the agriculturists?—Yes.

Chairman : In effect the business you are speaking of is short-term accommodation during the transit of the goods?—Yes.

In some cases this business is definitely a short-term accommodation because you give your Calcutta clients credit before you actually collect the money?—Yes.

But usually it is merely agency business on which you are paid something for taking the trouble to collect the debt?—Yes.

Professor Batheja : You are not opposed to the urban co-operative bank doing this class of business at least for the members of the bank?—I have not ever thought of it.

Chairman : Do you think in your experience of Hazaribagh district the indebtedness of the cultivators is increasing?—Yes.

Is he more indebted than he was twenty years ago?—Where there are co-operative societies their indebtedness has decreased, I think.

Mr. Hodge : But outside the co-operative societies?—When there is any cattle disease they have to borrow large amounts of money and in such cases their indebtedness has increased.

Chairman : You say that there is some co-ordination amongst the *banias* and Marwaris?—They sometimes make consultation as to whether a man has credit or not and about the rates at which grains should be sold.

Do the Marwaris lend money much to the rural *mahajans*?—Sometimes temporary loans are given to them.

Would you say that the greater part of the working capital of the village *mahajan* is derived from his own funds or does he borrow from the Marwaris in the towns to any large extent?—They do not have to borrow much from the Marwaris.

Are you satisfied generally with the way in which marketing is carried out in the Hazaribagh district?—Yes, so far as my information goes the producers sell in markets at or near their villages and then the *mahajans* get them to the important trade centres.

Then the producer on the whole gets a fair price for his produce?—Yes.

Is he to any large extent obliged to sell to his money-lender at a price fixed by the money-lender?—The money-lender does not fix the price. It is not in his interest to fix the price.

The actual producer can find an open market for his goods within reasonable reach?—Yes.

I notice you say that produce is brought in by lorry to the big centres?—Yes. It is a recent development.

There is a development of lorry traffic in Hazaribagh for goods?—Yes, on the roads where there is lorry service. There is a road which is called Hazaribagh-Katkamsari road on which no lorry can ply. There is a fairly good net-work of roads in the Hazaribagh district which enables goods to be moved by lorry.

Professor Batheja : Is it cheaper to transport goods by lorry?—I cannot say that.

Who owns these goods lorries?—The motor companies and sometimes big contractors have their own lorries.

Chairman : Are there any warehouses for storing paddy and things like that in the district apart from those in Hazaribagh itself?—Of

course there are *bhandars* belonging to private individuals. *Golas* are those big shops in the town but *bhandars* are here and there in the district. There is a *brahil* who remains in charge of the *bhandar* and grains are stored there and in times of need they are brought to important centres.

They are held there until they are sold?—Yes.

Professor Batheja : Who own these *bhandars*?—Big cultivators and zamindars.

Chairman : Are they located at big rural *hats*?—They are in villages also.

Is there no big *hat* where there are permanent buildings in which the grain is stored?—At the *hats* there are no permanent buildings for storing.

Professor Batheja : Do the owners of the *bhandars* store their own goods only or goods of other cultivators?—Generally their own goods.

Do they store for other people also?—But they keep them in separate rooms.

Do they levy any charge?—I cannot say that. They may do so on friendly terms.

Chairman : It is not an organised business?—No.

Professor Batheja : Do you know anything about *golas* as they exist in places like Patna and Bhagalpur where customers can store goods with the owners of the *golas*?—There are *golas* in the towns where the merchants get their grains from the interior and store them there.

Do they store grain for other people also?—There is some understanding between them and other people.

Do they sell grain for customers also?—I think separate accounts are kept for other people.

Chairman : Does your bank lend money against goods stored in the *golas*?—No.

In the Hazaribagh district is most of the grain actually consumed in the district or is any considerable amount exported from Hazaribagh?—There are both import and export.

Mr. Hodge : Do traders from outside the province come there to buy grain?—Yes.

Is it your experience that land is deteriorating in the Hazaribagh district?—I think not.

Is there a good deal of emigration of labour?—Formerly people used to go to Burma and Assam tea-gardens but now I think migration to Burma has ceased. They also go to the collieries and to mica mines.

Chairman : That is a temporary migration. They usually return?—Yes, but some of them have settled there.

There is no migration to Burma and there is comparatively little to the tea-gardens?—Yes, so far as I know. (The witness here submitted a note on the Negotiable Instruments Act.)

Professor Batheja : Have you prepared this note after studying the relevant sections of the Negotiable Instruments Act?—Yes.

Chairman : You are no doubt aware that we had an interview with your branch Manager at Ranchi. One of the things he said was that there were certain difficulties which the bank felt owing to the capital being somewhat low. I think your paid up capital is Rs. 58,000?—Yes.

And he said that if the capital was raised to Rs. 5 lakhs you will be able to get better facilities from the Imperial Bank?—I do not agree with him.

You do not think there is any statutory advantage to be gained?—No.

Would the Imperial Bank or other big banks give you further facilities if your working capital were increased?—After the failure of the Bengal National Bank we tried to get some accommodation but no bank would help us. One bank said that they would help if we could find sufficient security. The Assistant Registrar of Co-operative Societies made some adverse remarks about co-operative societies and the Europeans thought that that remark was about the Chota Nagpur Banking Association and a missionary who had some Rs. 96,000 in deposit went to Hazaribagh to get that money back. As a matter of courtesy we gave back the money which was on deposit at two months' notice. After some time they again deposited money.

Professor Batheja : Do you not think in relation to your business of Rs. 58,000 your paid-up capital is rather low?—We do not feel inconvenience.

Would it not increase your prestige and your business if the capital was larger?—We are going to buy Government papers again. We have recently got one lakh out of a decree and we expect to get more money so that without raising our capital it would not be difficult to manage the work.

Chairman : You prefer to raise the stability of your bank by liquid resources rather than by increasing your paid-up capital?—Yes.

Professor Batheja : If you try to raise the capital would you feel any difficulty?—I think the money would not be fully utilised.

Chairman : Your bank is audited by a chartered accountant?—Yes.

Is the audit conducted in all the branches as well as at the head-office?—The audit was done on the spot at the branches this year.

Your Ranchi Manager promised to give us some statistics of the growth of cheque habit. Are you in a position to let us have that?—There is no appreciable increase. The educated people only make use of cheques.

Professor Batheja : Has the number of cheques increased?—No increase due to the abolition of stamp duty on cheques.

Chairman : Would it be asking you too much to give statistics supporting your statement?—I could supply the statement later on.

You say that postal certificates are popular in the Hazaribagh district?—So far as the educated people are concerned. The people in the interior still do not know what a postal cash certificate is.

Did people in the interior buy postal cash certificates during the war at all?—Yes.

Because there was a certain amount of propaganda then?—Yes.

At that time you were still employed under the Encumbered Estates?—Yes.

Was there any special propaganda in the Encumbered Estates for getting cultivators to buy postal certificates?—The Encumbered Estates have hardly any funds to do so.

Were the tenants encouraged to do so?—They do not know of that.

About the time of war?—Near the town some people did so but they sold the certificates.

Is it not desirable in the interest of the general banking business to provide that a notice of dishonour of a cheque should be passed on to the person against whom such dishonour has been effected as speedily as possible?—I think some more time than is allowed by the law should be given.

Your suggestion as to the amendment of section 118 amounts to this, I think, that there should be a presumption in law that the signature of the drawer of a cheque is actually that of the person, whose signature it purports to be, and similarly for the signature of endorsers?—Yes.

Is it usually a great inconvenience to banks, when they go into court, to have to prove the signatures?—Unless the party objects, proof is not required.

R. B. Jalan : Have you had any cases like that? We had a case in which a petty landlord sent money through his son. Then the father said that it was not his son's signature and we had to prove that.

Chairman : In practice, the courts do not require you to prove a signature unless it is challenged by the opposite party?—Yes.

Professor Batheja : What is the custom when your branch banks have got a surplus fund; do they remit to the head-office?—No. Of course, if we require funds we ask them to send a specified sum to us and sometimes one branch sends money to another branch.

Is it your experience that some of your branches are normally surplus and some are deficit branches?—I receive daily reports and I can at once see the condition of each branch.

So you issue instructions about the disposal of funds according to the need of the business at each place?—Yes.

That has the effect of restricting the credit available for zamindars?—This is not exactly so. Loan applications are sent to the Head Office and if the Board of Directors decide to grant a loan and the funds of the branch are insufficient at that time the funds are supplemented by remittances from the head office or other branches.

Does it mean that zamindars on account of these restrictions have to pay a higher rate of interest?—If a zamindar cannot secure loan from the Bank for any reason he has to pay higher rate of interest to private money-lenders.

You say that Government securities are now purchased through the post-offices. What sort of securities do you mean?—Government Promissory notes and postal certificates.

Anything besides that?—I do not know.

Is any commission charged for this service?—No.

In what way has the opening of a branch of the Imperial Bank at Dhanbad affected your business at that place?—I cannot give you any idea of the extent but it affected our loan business and to a certain extent our deposits.

How was your loan business affected? Does not the Imperial Bank lend money against first class securities?—They also insist on securities as we do. But I think some Europeans who have coal properties took money from the Imperial Bank.

Are the rates of interest charged at Dhanbad the same as you charge at Ranchi?—Yes.

How do they compare with the rates charged by the Imperial Bank?—I do not know the rate charged by the Imperial Bank.

R. B. Jalan : You do not like dealing with indigenous bankers because you are not certain of their solvency. Could you give us the number who went into insolvency?—One case is pending in the Judicial Commissioner's court. The applicant was a zamindar as well as a merchant and a banker.

Do you know of any other cases?—I know of a pleader who has come from Puri. He has applied for insolvency in the Calcutta High Court.

Is he a banker?—No. There were other insolvency petitions pending, one case in Dhanbad and one or two in Giridih.

Professor Batheja : Do you think that nowadays indigenous bankers are able to get less deposits than they were able to get before?—They are not receiving deposits now.

What is the cause of the decline?—It may be due to the parties having no savings and perhaps on account of the failure of crops on their land.

Chairman : Did the village *mahajan* ever take deposits?—Formerly they did.

Could you give us any kind of idea of the number of people in Hazaribagh town who actually receive deposits and also lend money?—I have made some inquiries. Deposits have now become very rare. They do not receive deposits now. There were two big merchants.

Professor Batheja : Did they refuse or had the public lost confidence in them?—I think this was due more to the gradual development of other deposit agencies.

Chairman : In the Hazaribagh town there is practically no real banker except yourself?—There is the Central Co-operative Bank and another Joint Stock Bank called the Behari Bank.

R. B. Jalan : Who is financing trade at Hazaribagh?—They do so out of their own capital or get money from elsewhere. We advance if sufficient security is given.

Chairman : As far as you know there is nobody doing really big business in Hazaribagh on a deposit basis except you and the central bank?—Besides these two the Behari Bank also does such business.



सत्यमेव जयते

Saturday, January 11, 1930

RANCHI

PRESENT :

Mr. HUBBACK (*Chairman*).

Mr. BATHEJA.

Rai Bahadur BANSIDHAR DHANDHANIA.

Mr. HODGE.

Rai Bahadur RADHA KRISHNA JALAN.

**Note by Mr. A. D. TUCKEY, I.C.S., Deputy Commissioner,
Hazaribagh.**

I enclose a statement showing the amount advanced by Government each year for the last five years as agriculturist loans and land improvement loans.

2. The chief reasons in the district why the Land Improvement Loans Act has not been used more effectively may be summed up as "distance and delay". Three centres, Hazaribagh and the two subdivisions, Giridih and Chatra, exist for these loans in a district with an area of nearly 7,000 square miles and in loans applied for in the subdivisions, sanction has to be obtained from the District Officer at Hazaribagh. The applicant has to come to the centre and file his application. It costs him something to get it written and probably he has also to pay something to the office staff. On this point the evidence is discrepant. A gazetted officer or the kanungo has then to make a local enquiry and report, and if the loan is sanctioned, it has then to be obtained at the centre. The loan is usually in two instalments and a fresh enquiry has to be made to see if work has been done to justify the second instalment.

The procedure is dilatory and is expensive to Government both in the time and the travelling allowance of a gazetted officer, but so long as there are not responsible Government officers, apart from the Police, in smaller units of administration it is difficult to suggest any improvement. Government officers working in the co-operative department have still larger areas to administer, so that it would not be practicable to hand over this work to them, and it would not, in my opinion, be safe to make use of any honorary agency.

3. I do not think that control over selected village money-lenders will be possible. In my opinion the staff of the Co-operative Department

of Government should be largely strengthened and more control should be exercised, and it should be through the agency of this department that such work should be done, provided that the personnel is adequate.

4. The best estimate I can give of the value of *raiya*'s' occupancy rights is that taken by the Land Acquisition Department, and is as follows for the six different classes into which the land is classified in the settlement records. The area of each of these classes roughly is also given :—

Area in acres.			Per acre.		
			Rs.	a.	p.
70,365	Rice land	I	225	0	0
116,482	,,	II	160	0	0
308,496	,,	III	110	0	0
88,364	Upland	I	125	0	0
373,434	,,	II	25	0	0
337,146	,,	III	12	8	0

There are legal restrictions to the sale of land which makes an accurate estimate of the sale value impossible. I am unable to give an estimate for the value of the proprietary interest in land. The district is covered mainly by large estates, impartible by custom, and the Ramgarh Estate, which is under Court of Wards management holds the proprietary interest of about two-thirds of the district.

5. With reference to question 6 of the questionnaire there are few subsidiary industries. *Gur*-making from sugarcane is practised wherever sugarcane is grown. There are two rice mills, one at Hazaribagh and one at Kodarma, but the district as a whole does not provide enough rice for its own consumption. Mica-mining and mica-splitting provide employment for a number of agriculturists in parts of the district and the lac industry is also of importance in many parts. The last is capable of further development. *सकपेन जयते*

Statement showing the amount advanced by Government each year for the last five years as agriculturist loans and land improvement loans in the district of Hazaribagh.

LAND IMPROVEMENT LOANS.

Year.	Amount allotted.	Amount disbursed.
	Rs.	Rs.
1924-25	6,000	1,950
1925-26	6,000	1,650
1926-27	6,000	4,230
1927-28	5,000	2,400
1928-29	12,000	12,000

AGRICULTURIST LOANS.

Year.	Amount allotted.	Amount disbursed.
	Rs.	Rs.
1924-25	Nil	Nil
1925-26	Nil	Nil
1926-27	Nil	Nil
1927-28	Nil	Nil
1928-29	5,000	5,000

Maulavi Chaudhury MUHAMMAD NAZIR ALAM, Sadr Subdivisional Officer, Hazaribagh.

Replies to the Questionnaire.

Question 1.—The agriculturist obtains finance for expenses during cultivation—

- (a) from local money-lenders, co-operative banks where there are co-operative societies and also from Government under the Agriculturists Loans Act;
- (b) for capital or permanent improvements from Government under the Land Improvement Loans Act, co-operative banks and in case of those who are well-to-do from their own savings;
- (c) for other needs as in (a) above.

The rates of interest charged by the local money-lenders vary from 24 per cent. to 37½ per cent. per annum. In some cases it goes even up to 75 per cent. The rate charged by co-operative societies is generally Rs. 15-6-0 per cent. per annum and in some cases where the loans are taken for permanent improvements, the rates are reduced to 12½ per cent. per annum. The rate of interest charged by Government in agriculturists loans and land improvement loans is 6¼ per cent. per annum.

The interest charged for advances in kind, i.e., grains by the tenure-holders or fellow farmers is 100 per cent., i.e., if one maund of grains is borrowed by the agriculturist he has to pay two maunds. In cases of loans of grains for purposes of consumption 50 per cent. interest is charged. There is also prevalent towards Gola and Gomia sides what is called *Chada* interest under which the borrower has to repay the principal money plus grains varying from lesser to 8 seers in the rupee during the coming harvest.

The period for which loans are taken for purpose 1(a) is usually limited to the harvest time and extends up to five years in cases of land improvement loans and three years in cases of agriculturists loans and up to seven years in cases of *Bhugat Bandha* mortgages. In some cases the period is extended to fifteen years by the co-operative credit societies.

The standing crops, live-stocks, *Bhugat Bandha* mortgage of the lands, ornaments and the personal credit of the agriculturist are given and accepted as security for the advances.

In case of Government loans, the agriculturists' land is itself given and taken security for the loan and is saleable for default in repaying these loans under the Land Improvement Loans Act. Also joint and several liability of a group of villagers for loans for seed grains is taken as security.

As to the part played in agricultural finance—

1. By Government.—Advances of loans are made under the Agriculturists' Loans Act for purchase of seed grains, etc., and also for reclaiming lands and sinking wells, etc.
2. By Imperial Bank of India.—It is nil.
3. By Joint Stock Banks.—There are two joint stock banks, viz., Chota Nagpur Banking Association and Hazaribagh Bank, Limited. They do not advance money for agriculturist purposes.
4. By Co-operative Banks.—There are two co-operative banks, one at Hazaribagh and the other at Giridih, and their sole activities are confined to financing agriculture.
5. By Indigenous Banks and Bankers.—It is nil.

Professional money-lenders and merchants and dealers, viz., *Banias*, Marwaris, besides landlords including tenure-holders and well-to-do agriculturists also finance agriculture.

There being no regular agency for distribution of these loans in normal years in the *mufassal* the agriculturists in the rural areas have to depend for finance on the local money-lenders who extort exorbitant rates of interest from them and keep them indebted perpetually. The absence of any provision in the Loans Act to advance seed loans in kind, i.e., in grains, instead of in cash (being due of course to administrative difficulties in keeping proper accounts of grains lent out) seriously handicaps the loan borrowers and places them largely at the mercy of the local money-lenders and well-to-do tenure-holders and agriculturists who own large stocks of grains to sell them at high rates at the time of sowing. To remedy these defects the loans should be advanced by Government through the agency of co-operative banks. There is no co-ordination among the various lending agencies. Government sometimes advances loans to co-operative banks for lending out loans to agriculturists.

Question 2.—The agriculturists bring small stocks of their principal crops to the local markets or *hats*. Sales at the houses of agriculturists also take place though on a small scale. Large stocks of the crops are brought to important trade centres such as Hazaribagh, Gola, Ramgarh, Barhi and Kodarma by middlemen on carts. Pooling requires a large capital, the paucity of which stands in its way. Co-operative effort in marketing produce requires the establishment of

grain *golas* at various centres. This will require a certain amount of capital expenditure as well as recurring expenditure. The capital expenditure is required for buildings for storage of grains, etc. Recurring expenditure is required to purchase grains according to the demands of each year.

At present the middlemen control the market. There is no facility existing for the benefit of the actual producers to bring their produce to the market for sale.

Internal remittance is carried on by means of postal money orders, insured covers and *hundis*. The external marketing, etc., is monopolised by the Marwaris who issue *hundis* on Calcutta and Ranchi, etc., but this issue of *hundis* is confined only among Marwaris. So far as I understand the *hundis* are not much current in Hazaribagh. There are two kinds of *hundis*, viz. *Darshani hundis* (i.e., payable at sight) and *Muddati* (i.e., on which a time limit is fixed for payment).

Question 3.—The value of land per acre for different kinds of crops in this district is as follows.—

					Rs.	a.	p.
Dhan	I	..	...	...	225	0	0
„	II	..	..	...	160	0	0
„	III	..	...	...	110	0	0
Tanr	I	..	...	...	125	0	0
„	II	..	...	...	25	0	0
„	III	..	...	...	12	3	0

The lands are not freely saleable on account of legal restrictions.

These legal restrictions to the transfer of *raiyati* lands exist under section 46 of the Chota Nagpur Tenancy Act.

The factors which effect such value are (a) legal restrictions and (b) productivity of the land. Every agriculturist has got an outstanding debt and to wipe off the debt of the creditor, he agrees to very low prices. In cases of sales of tenures by civil court and rent court decrees, the value comes to about fifteen times the annual net profit while in the case of holdings the bids generally do not go beyond the three or four years' arrear rents for which the decree is generally obtained.

Question 4.—Under section 46 of the Chota Nagpur Tenancy Act mortgage of agricultural holdings is limited to seven years. There is no land mortgage bank in this district. There are agricultural banks, i.e., the two co-operative banks in this district, but they cannot afford to give long-term loans on account of paucity of funds, the deposits in the Hazaribagh Co-operative Bank being a short-term investment for one year only and the loans taken by the Bank from the Provincial Co-operative Bank are not also long-term loans. In cases of *Bhugat Bandha* mortgage of lands the maximum period allowed under the Chota Nagpur Tenancy Act to the co-operative societies is fifteen years. The co-operative banks raise their capital by means of sale of shares, by deposits from public by loans from the provincial co-operative banks and sometimes from Government.

Question 5.—The information regarding the existing indebtedness of the agricultural classes will be supplied by Babus Dineshwar Prasad, Pleader, and Nawal Kishore Prasad, M.A., B.L., Secretary of the Co-operative Bank, Hazaribagh, who have undertaken to make survey of the villages, Kansar (police-station Hazaribagh), Karookhap (police-station Mandu) and Birbir (police-station Hazaribagh). Pandaria, Chandail and Kandebar in Barkagaon police-station.

Question 6.—There are two rice mills in the Sadr subdivision—one at Hazaribagh and the other at Kodarma. In about two-thirds of the villages the manufacturing of raw sugar is made. Green produce is available wherever the Koeris are found. Weaving and spinning *tasar* are also in use in Gomia police-station. Rope-making is also done in the Hazaribagh Central Jail from aloes. Improvement can be effected through propaganda and the opening of co-operative purchase and sale stores. Also the co-operative banks can open factories for small industries like eri-silk culture, carpentry, rope-making from *sabai* grass. It is suggested that for this money should be available to the co-operative banks at low rates of interest, that Government grant for loans under the Land Improvement and Agriculturist Loans Act may be placed at the disposal of these banks for distribution, that Government may place a sufficient capital at the maximum rate of 3 per cent. interest at the credit of the co-operative banks. It has further been suggested that profits of co-operative credit societies may be exempted from income-tax. The extension of the exemption from income-tax will ensure the stability of the movement.

Question 7.—In this subdivision the co-operative bank has got dealings with the Chota Nagpur Banking Association which keeps all its surplus money and has given the co-operative bank a credit of Rs. 2,500. There is no competition in this district between the co-operative and joint stock banks.

II. INDIGENOUS BANKING.

1. In this district there is no indigenous bank. The true banking system is not yet developed in this district.
2. Does not arise.
3. Does not arise.
4. There are two kinds of *hundis*, viz. *Muddati* and *Darshani*, which are used by some Marwaris.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

Question 1.—Information not available.

The existing means for encouraging savings and investment habit are—

- (1) Postal Savings Bank.
- (2) Co-operative Credit Societies.
- (3) Postal Cash Certificates.

What is required is the education of the people in the habit of thrift by means of propaganda. The illiterate people in rural areas have got a hobby for investing the surplus in gold and silver ornaments. They also invest the surplus money in lands and live-stock and building houses. Well-to-do people who are educated prefer to invest the surplus in purchasing shares, deposits in banks and also in purchasing landed property and building houses.

Question 2.—Postal cash certificates and savings bank deposits are confined only among a few of the educated classes. The question of popularity does not arise as the masses do not know about these means of deposit.

Question 3.—Postal cash certificates and savings bank, etc., will serve all the requirements.

There is practically no sale and purchase of securities in this district. The agriculturists invest surplus in the acquisition of landed property, in purchase of live-stock, in building houses, in sinking wells and in money-lending also on *Rehan* and *Bhugat* of lands. They keep the surplus with themselves. The farmers lend to fellow farmers without interest in case of close relation otherwise on interest or on *Rehan* and *Bhugat* of lands.

Question 4.—There is practically no cheque habit in this district; well-to-do persons who have banking accounts use cheques. Unless there is a co-ordination among the various banks, there will be practically difficulty if cheques are issued in payment of employers not Government or public bodies. The use of vernacular scripts on banking seems necessary for the spread of banking habits as also for making it popular with the public.

Question 5.—The banking and investment habit is of very slow growth which is due to want of general education among the people; spread of education is the only thing necessary.

Additional Questions.

Question 1.—The inhabitants of this district are backward in the banking activity, the district is undeveloped and backward. The people are poor, want of education is the only reason.

Question 2.—There are no such branches in this district.

Question 3(a).—If the larger rural post offices extend their banking business by accepting current accounts, there will be increase in deposits without fail at places where there are no joint stock banks or co-operative banks.

(b) It is not possible on account of the practical difficulties in ascertaining the credit of the drawee and the drawer.

Question 4.—No.

Question 5.—There is no doubt that this practice exists but it does not appear that it has come to a point which requires remedies by legislation.

Question 6.—I do not think so.

Question 7.—It is not at all desirable. Such a system would create a set of licensed usurers and oppressors who will become pests to society.

Question 8.—I do not think that an excessive investment in lands takes place or that price of land is thereby forced up. The reason for increase in the value of lands seems to be the increase in population especially round about the town, markets and places of business and industry or trade, etc., and the consequent rise in prices on account of the growing demand for lands near about the places of development.

Question 9.—Vide answer to question 1(a).

Question 10.—The Usurers Loans Act is not in use in this district. The courts look to equity in such matters.

Oral Evidence.

Chairman : You are at present Sadr Subdivisional Officer of Hazaribagh?—Yes. I am here since about two years.

Prior to that you served in most parts of the province?—Yes.

You were in Orissa?—Yes, I was Subdivisional Officer at Balasore.

You were Sadr Subdivisional Officer at Bhagalpur?—Yes.

Your answer to the questionnaire is based mainly on Hazaribagh conditions or have you referred in any way to other parts of the province?—It is confined to Hazaribagh only.

In answering question 1, you speak of (a), (b) and (c). (c) I take it is for other needs apart from the expenses of cultivation and improvements?—Yes.

Could you explain more clearly what this system of *chara* interest is?—You say the borrower has to pay the principal money plus grains varying from 1 seer to 8 seers in the rupee?—The system is that the borrower has to pay the money which he borrowed in cash. Besides that there is a stipulation made by the borrower that he will have to give the lender grains at the rate of 2 to 8 seers per rupee lent. But if the borrower wants to repay in kind the principal amount borrowed, in that case the borrower is obliged to sell his crops just sufficient to cover the principal amount lent at rates somewhat more favourable than the prevailing market rate of the time.

That is, besides the fact that he has got to repay the loan at a certain date, there is also a stipulation that he should sell part of his crop to the lender at a definite rate. How much of his crop has he got to sell at that rate?—There is no fixed quantity like that because this transaction is made only by very poor agriculturists and so the

mahajan does not insist on taking very large amounts of crop from the borrower.

This is in fact a form of interest. There is no other interest charged?—Yes. This is a sort of an advance made on crops.

There is an stipulation I understand that anything that the borrower wishes to sell at all he must sell to the lender and at a price fixed at the time of borrowing?—No.

Is that system very prevalent?—It is only in one or two thanas and confined to very small agriculturists.

Then you say that the period for loans under class 1 (a) and 1 (b) is usually limited to the harvest time. Surely loans for class (b) is not limited to harvest time?—I modify the answer. The thing is this that this answer is confined to the loans given by *mahajans*. They are taken for purpose 1 (a). As to 1 (b), I should say the local money-lender very seldom advances loans for capital or permanent improvements.

You speak about the Hazaribagh Bank, Limited, as one of the joint stock banks. Another witness spoke of the Bihari Bank, Limited. Which is the correct title?—It is the Hazaribagh Bank. There is no doubt that there are more Biharis in it but it is called the Hazaribagh Bank.

Professor Batheja: Do you know anything of the work of the Hazaribagh Bank?—That exists only in name and is not doing much business.

Chairman: Has it got any deposits?—It has got some deposits.

Professor Batheja: What is its working capital?—I do not know. Have you any idea of its paid-up capital?—No.

Who are the directors?—I do not know.

Mr. Hodge: Is it a new institution?—It is not new.

Chairman: Is it now practically defunct?—Yes.

You say that one of the defects of the Agriculturists Loans Act is that it does not advance in kind?—Yes.

Are there any grain banks in the Hazaribagh district?—No.

Have you heard of any grain banks in any other district in which you have served?—I have some experience of the Ranchi district where there are co-operative banks. One or two grain *golas* were started there and I found that they were working with great success.

You are satisfied that they were a success in Ranchi?—Yes.

Do you think that they might be introduced with advantage in Hazaribagh?—Yes.

That would solve the difficulty that Government does not provide that form of accommodation?—There would be need of responsible officers.

Perhaps you are not aware that grain banks run entirely by Government officers are a great success in Santal Parganas?—I do not know that.

You think that a co-operative enterprise of that kind would be a success in Hazaribagh?—Yes.

You say that large stocks of the crops are brought together in certain important trade centres and you mention Gola, Ramgarh, Barhi. Are there big buildings in which they are stored?—No, in ordinary shops of the grain dealers.

Do they hold them on behalf of the producer or do they buy the stocks?—They buy them outright.

There is no business of holding them and lending money against them for the time being?—No.

Is Gola on any railway?—It is about two miles from the station.

Is that on the Grand Chord?—No, on Bengal-Nagpur Railway.

Ramgarh is now on the Barkakana line?—Yes.

Barhi, on the other hand, is not on any railway?—Yes.

There are not very many other centres of that kind in the district?—There are others.

Have new places grown up as centres for collecting grain?—Yes. At Argadda there is a small centre. Is that right away in the interior?—No. It is six miles from Ramgarh. There is a new *hat*.

We are rather inclined to distinguish between a *hat* which meets once a week where the produce of fairly small areas are brought in and sold on the spot and what is not sold is taken away, and what I am inclined to call "a rural mart" where the stocks are brought in and kept in *golas*. Is Argadda a place of the former kind or of the latter kind?—It is a weekly *hat*.

There are no permanent buildings in which stocks are kept?—No.

One witness told us that there has been considerable development of moving grains by lorries. Is it also your experience?—Yes, I have seen that.

Mr. Hodge: You say that at present the middlemen control the market. Has the producer no say whatever in determining the rate?—Not much. The producers mostly are in the hands of *mahajans*. They are in their grip and the *mahajans* always lie in wait for the harvest and just then seize on the crop as soon as the harvest time arrives.

Who are the middlemen?—The *mahajans* also act as middlemen. Of course in this district of Hazaribagh as well as of Ranchi my experience is that these poor cultivators have almost been sucked dry by these money-lenders.

Chairman: Apart from the *chara* system are the other *raiya*s obliged to sell to their creditors?—Yes.

What formal obligation is there?—Of course the agriculturists generally stand in need of money and they approach the local *mahajan* who advances the money. He leaves the amount to swell for years and after that he would add to it compound interest and so on and then after a few years when the amount is beyond the paying capacity of the agriculturist then he would take a hand-note or a bond or an usufructuary mortgage of the *raiya* holding.

how do you make out that that affects marketing?—Because they sell before the market becomes a little stiff.
 have But there is no obligation by which they have got to sell to a particular person?—Because they owe money to a certain *mahajan* or money-lender or to a certain trader and middleman and so they cannot but sell the crop to him at a certain reduced rate or on a concession rate. That is always the thing in practice. Besides this, there is in the matter of paddy or wheat such a thing as is called in Hindustani *dadan*

is any wheat grown in the Hazaribagh district?—Not much. But *dadan* is given to the growers of paddy and at the time of harvest the cultivators have to sell their paddy at certain concession rates to the money-lender.

You describe that in the *chara* system. Is this something over and above the *chara* system?—Yes.

Mr. Hodge: Would you say that a large number of cultivators are under obligation to sell their crop to the *mahajan* immediately after harvesting?—No.

Chairman: Suppose another trader comes and offers him a slightly better price. Is he not able to take the better price?—Legally speaking he is. But as things stand that contingency does not arise, as practically every money-lender has got his own area of operation.

R. B. Jalan: Is that only to please him?—They are illiterate and they do not understand their interest.

Mr. Hodge: Is the cultivator's crop mortgaged to a money-lender?—No.

Is it the economic stress that compels them to sell at harvest time?—Yes.

Chairman: Is it your opinion that ordinarily speaking the agriculturist is obliged to sell to a particular person at a particular price because he has borrowed from him?—Not necessarily.

Besides the *chara* system which you have described which is comparatively rare, there are also other forms of advances made. On what kinds of crops or commodities are these commonly made?—Paddy.

To fairly substantial *raiya*s?—Yes.

In such cases it is a part of the stipulation that it should be sold at a certain price to the particular man who makes the advance?—Yes.

Any other commodity?—*Ghee*.

In the case of *ghee* it is the persons who actually manufacture the *ghee* and they are comparatively a small class?—Yes.

Are they fairly well able to make a reasonable contract with the man who makes an advance?—Yes.

So that you would not consider that that is a case in which the producer is very much in the hands of the ordinary class of money lender?—No.

You think *ghee* is a commodity for which the market might be better organized?—Yes.

Mr. Hodge: Do you say that marketing facilities in Hazaribagh district are unfavourable for the producer?—Yes.

Have the cultivators ever made any endeavour to protect themselves?—They are very illiterate and there is no organisation among them.

Professor Batheja: Is a large amount of *ghee* produced in the Hazaribagh district?—Not much.

Chairman: You have given a valuation of different crops of land. Is that based on the rates now paid by the Land Acquisition Officer?—Yes.

But not including compensation for disturbance at 15 per cent. or anything of that kind?—No.

How were these figures arrived at? Have you any knowledge?—We got, for instance, from the Settlement Report the produce of different class of land and that produce has been valued in cash and then capitalized.

At what rate do you capitalize?—Fifteen years' purchase.

I take it that before you capitalize you debit the cost of raising the crop?—Yes.

Would you be good enough to look into the point in the Land Acquisition office and let us have a further note on the cost of raising crops?—Yes.

Mr. Hodge: What would be the size of the average holding in the Hazaribagh district?—About 5 to 6 acres.

What is the average rent of a holding in that district?—It is different for different classes of land. For paddy land it is from Rs. 1-2-0 to Rs. 3-2-0 per acre and for *tanr* land it is from 4 annas to Rs. 1-4-0.

Chairman: Do you think that the man who holds five acres in Hazaribagh can support his family on it?—Yes.

Mr. Hodge: Is there not a considerable amount of migration from that district?—That is due to attractive wages which they get from other parts, otherwise there is nothing to drive them from the district.

Chairman : Is there a great deal of permanent migration from the Hazaribagh district?—Not permanent.

Mr. Hodge : Do they make remittances?—Yes, they send large amounts of money for supporting their children as well as for the payment of rents.

Chairman : You say that there is a good deal of investing of savings in gold and silver ornaments. Is there any tendency of increase or decrease?—It is on the increase.

One witness told us that they were replacing gold and silver by metal which looked like gold and silver and which was less expensive?—No.

Professor Batheja : Is there much scope for more rice mills in the Hazaribagh district?—We have already got two mills.

Are they flourishing?—Not much.

How do they raise finance?—I do not know.

Chairman : Is there any very great deal of surplus production of rice at Hazaribagh?—No.

Professor Batheja : Is there scope for oil mills?—Not much. Of course, we have got *sarguja* in abundance.

Chairman : What happens to *sarguja*?—People use it here.

They turn it into oil themselves?—Yes.

R. B. Jalan : What do they do with it?—They eat it and apply it to the body also.

Chairman : Is there a large number of karanj trees in Hazaribagh?—Yes.

They also extract oil from that as a family industry?—Yes.

Mr. Hodge : Is there any room for a sugar factory in Hazaribagh?—Yes.

Chairman : Is sugarcane growing making a great advance in Hazaribagh?—Yes.

Mr. Hodge : Where does the manufactured sugar go to?—That is exported to other places. I do not know where it goes.

Are these agriculturists fully occupied in their spare time or do they need any subsidiary industry?—They need some industry.

Does not the surplus labour go to coal or mica mines?—In some parts the agriculturists are employed in the coal and mica mines.

But still you think that a number of agriculturists are idle?—In those parts where he has nothing to do during the off-season he goes to other districts.

Chairman : At the time of the last settlement there was a very great deal of *kamia* labour. Is there still a great deal of *kamia* labour?—Not much.

Have you made any inquiries as to the efficacy of the Kamiauti Agreement Act?—No.

Do you think, on the whole, the *kamia* system is dying out?—Yes.

What is the main reason for its decadence?—That is on account of the bad condition of the agriculturist and also on account of emigration of this class of labourers.

How does the bad condition of the agriculturist affect the question of *kamia* labour?—They cannot afford to keep them and feed them, I should say.

So those people are inclined to migrate rather than to carry on as they did in the past years?—They find that it is more paying as they get better wages in the shape of cash outside than by service as *kamia*.

Professor Batheja : The agriculture is declining?—Rather it is improving.

Why do you say bad condition of agriculture?—I mean bad economic condition. They are indifferent to improve their condition or to devote to more productive works.

Chairman : You say that the Usurious Loans Act is not in use in this district. Do you mean to say it is not in force?—The Act is in force, but the courts do not make much use of it on account of stringent conditions of the law to be fulfilled before the Act can be applied.

What is the basis for your view that the courts look to equity in such matters?—My idea is that exorbitant rates of interest of course beyond all proportion are claimed by the money-lender and what is fair and equitable is allowed by the courts. The courts look to the broad points of what is fair and equitable and do not enter into the complicated accounts.

Mr. Hodge : Would you allow a rate of interest at 75 per cent. in the name of equity?—No.

Professor Batheja : You say that if post-offices open current accounts, there will be an increase of deposits at places where there are no joint stock banks or co-operative banks. What area had you in mind where post-office current accounts will increase deposits by the public?—I mean the rural areas because at present illiterate people do not take much advantage of the facilities given for deposits in the post-office savings banks and if branches of these post-offices in rural parts accept deposits I think a large number of deposits will come.

Are you referring to savings bank deposits or current accounts?—Current account, savings bank and everything.

Would you try to extend the function of the branch post-offices?—Yes.

Are you also in favour of subdivisional post-offices opening current accounts for the public?—Yes, that is necessary. Supposing a depositor

has to deposit at a branch post-office some money he cannot get his pass book unless the matter is referred to the head post-office and so on.

Do you mean to say that a week must elapse before he can draw from his account?—Yes.

Would you allow any interest on current accounts?—I am not very keen about interest. I think 3 per cent. will be quite sufficient. If the system is popularized and is made well known to the masses then I think a lot of money which they hoard up or they invest in gold and silver and so on that will come to the post-office, because the people are gradually learning the benefits of the facilities for banking.

Chairman : I do not quite understand why current accounts should encourage people to put their money in the post-offices rather than the savings bank deposit accounts. If they have not taken much advantage of the savings bank why should they take much advantage of the current account?—Their failure to do so is much due to their not knowing the benefits of it.

That rather indicates that propaganda on behalf of savings bank deposit accounts would, at any rate, begin to solve the problem instead of launching forthwith into the current account business?—The propaganda can be done by the Co-operative Department. There should be co-ordination between the banks.

Do you think it is the duty of the co-operative society to promote thrift in general?—Yes.

Whether the money is deposited with them or with the post-office?—It should be done by the Co-operative Department to make masses alive to the necessity.

Professor Batheja : Is there a large amount of money which is hoarded by the people which is not properly invested?—Not now. I do not think they bury large amounts.

Where do you hope to get the deposits?—Instead of buying these ornaments and investing money in other things they can deposit. There are some people who think it is safer to keep money in a bank or in the post-office savings bank or any such bank rather than to invest in lands.

Chairman : Are you thinking of middle class men?—Yes.

Professor Batheja : I suppose the agriculturist would prefer the current account because he can get back the money more easily.

Chairman : Do you think the village *mahajan* is actually in any difficulty about providing loans on short notice?—He is not in any difficulty.

Do you think he can get money from other *mahajans* in the same village or say two miles away?—Yes.

R. B. Jalan : Do you know of any case where a village *mahajan*, *bania* or others fled away after taking deposit from the public or from the cultivators?—No.

Chairman : Do the village *mahajans* take deposits much?—I do not know.

Do you think that there is still any very great reluctance on the part of the members of the Muslim community to take interest on money lent by them?—So far as educated people are concerned there is no such reluctance. Personally, I have no objection. The old type of people still raise objections.

But the objection is very much less than it was 30 or 40 years ago?—Yes.

Your point of view, I take it, is that your religion forbids usury but not reasonable interest?—Yes.

R. B. Jalan : Is it not a fact that those who object to interest have something added to the principal and take that extra amount as interest?—I do not know.

Have you come across any Muslims who actually do money-lending business?—Yes.

Professor Batheja : Are there any such men in the Hazaribagh district?—There are.

Chairman : We were informed at Ramgarh itself that a good deal of the money-lending there was done by Muslims who came from Gaya?—It is so.

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Hazaribagh.**

AGRICULTURAL CREDIT.

1. (a) The agriculturists are generally financed in the matter of expenses during cultivation by the village *mahajans* and landlords of the locality and also sometimes by the Marwaris of the town. The village co-operative societies also furnish a part of finance for this purpose in the eastern half of the district.

(b) Capital improvements in the shape of reclamation of waste lands and extension of cultivation are financed by the local *mahajans* on a very small scale but chiefly by the efforts of the agriculturists who go out to Burma in survey work and to the collieries adjacent to the district where they supplement their earnings and after some time come back to their villages and invest their savings in them. The permanent improvements in the form of construction of wells and embankments and *ahrās* are made on a small scale by a few of the big agriculturists who are generally Babhans and Bandwats. the

latter mostly of Chai pargana. The majority of the agriculturists have very little of permanent improvements as their holdings are too small to be profitable.

The co-operative bank also renders help in this matter. The Government also comes to their help in some special cases.

(c) The agriculturists of the district very seldom get help for land revenue purpose. The local *mahajans* help them in cases of failure of crops, monsoon, etc. The Government also helps in special cases by *takavi* loans.

The rate of interest for cash advances charged by *mahajans* varies from half anna to one anna per rupee per month. These are generally taken in agricultural seasons (April—May) and the agriculturists begin to pay back in December after harvesting. In case they fail to pay from their crops they go out to work in the collieries and distant places for six months from October to April and come back to their villages with their savings to pay off the loans. When grains are lent out for seedlings the *mahajans* charge twice as much as lent out.

The Government gives out loans for land improvements through its own department at $6\frac{1}{4}$ per cent. per annum.

The Central Co-operative Bank lends to the village societies at $12\frac{1}{2}$ per cent. and the village societies charge the individual members for loans Rs. 15-10-0 to Rs. 18-12-0 per cent. per annum.

In the case of co-operative bank the security is joint and personal liability of the members to unlimited extent. In the case of short period loans which are of small amount the loans and interest are to be paid back in two instalments or *kists*. But in the case of long period loans four or five *kists* are allowed to accommodate the borrower.

The Government lends money to Central Bank for irrigation purpose at $6\frac{1}{4}$ per cent. which the Central Bank lends to the village society.

In case of *Rehan* the land forms the security.

In the case of loans from *mahajans* though a time for payment is stipulated yet no stress is put on that. The period would be the period of limitation for instituting the suit on the bond.

There is no Imperial Bank or its branch in the district of Hazaribagh. There are two joint stock banks here, of which the Behari Bank, Ltd., plays a negligible part in financing agriculture. It sometimes lends money to the agriculturists individually on collateral security at Rs. 18-12-0 to Rs. 24 per cent. per annum. The other joint stock bank, viz., the Chota Nagpur Banking Association, Ltd., lends out money to the agriculturists with landed property as security, generally the small agriculturists do not get any help from the Chota Nagpur Bank.

Defects.—(a) High rate of interest charged by the money-lenders and the local *mahajans*.

(b) The local law, viz., the Chota Nagpur Tenancy Act restricts the power of the tenants as regards their right of alienation and transfer. It provides that lands cannot be transferred to a person not belonging to his own caste or a tenant of the same landlord. In these respects the Act means an impediment to getting the proper price for the land transferred, or to getting reasonable advance when necessity arises.

(c) The general method of exacting payment is that the *mahajans* when the harvests are ready keep a strict eye on them and sit on the thrashing floor and realise the dues with great cruelty.

(d) It is often found that when a land has been given out in *rehan* by an agriculturist the land very seldom comes back to him for in almost all cases the *rehandar* fails to satisfy the loan that he has taken on *rehan*. This deprives the agriculturist of a large part of his original holding which in turn brings poverty.

(e) The agriculturists cannot take advantage of the loans issued by the Government for before a loan is granted by the Government a long-drawn enquiry is made which in most cases fails to give any help to the borrower in case of immediate necessity. If the enquiry carried on by the Government Department be not prolonged to such a length that would be a great relief to the tenants.

(f) *Fragmentation of lands*.—The tenants cannot think of improvements on their lands as their holdings are too small.

(g) The agriculturists cannot get the full advantage of the credit facilities that are already in existence due to the mass illiteracy.

(h) In some cases the agriculturists are in hopeless indebtedness. The village societies have already removed a part of their burden but fail to totally wipe away the same for the limited amount of money an individual member gets which is ten times the face value of the share or shares he holds. This gives opportunity to the money-lending class which still prevails.

Remedies.—(a) Legislation in the matter of interest. The old *Dandupanth* law under which no *mahajan* could realise more than the total amount of capital by way of interest was a wholesome check. The principle that when a man of age who has attained majority enters into a contract without compulsion, the contract is legally binding on him has been held by courts of law. This principle ought to be applied with great caution. The uneducated mind of the peasant, the surrounding circumstances, his need, etc., should be taken into account. One is surprised to find that in courts of law the interest at 75 per cent. per annum is not an unconscionable bargain. Protection is necessary. There ought to be legislation restricting the rate of interest.

(b) Primary education is required. The Government should spend more on primary education which should be made compulsory.

Propaganda work relating to banking habits, thrift should be started in the villages by the village societies and by Government

representatives in thanas. The pass books, cheques, the articles of association, etc., giving particulars of the bank and banking business have to be printed in vernacular script to enable the villagers to easily understand and realise the benefits of such institutions.

(c) *Extension of co-operative banks.*—There are only a limited number of such banks in the district. The Chatra subdivision, which comprises a large area, so to say the western half of the district, starves for want of such organisation.

There is no co-ordination between the different credit agencies excepting that the Government sometimes helps the agriculturists through the Central Co-operative Bank. In case of immediate necessity the Central Co-operative Bank can draw on the Chota Nagpur Bank. The professional money-lenders are purely individualistic concerns. These money-lenders generally hoard up money, in consequence they have not to deal with the banks concerned.

2. The agriculturists of the district are generally very poor. Consequently they are absolutely in the hands of the money-lenders. These money-lenders (both professional and merchants of Hazaribagh) advance money (*ladan*) to the agriculturists before seeds are actually sown through their agents and make a forced stipulation that the crops when ready will be sold to them, and to nobody else, at a fixed price generally lower than the prevailing market price.

In the remote part of the district a few middlemen collect crops from the neighbouring villages and bring them to their wholesale dealers at Hazaribagh. There are also a few agriculturists, who are somewhat in a better position, sell their crops as free agents either to the wholesale dealers at Hazaribagh, or at some village market where the agents of the wholesale dealers go and collect these crops. Sometimes these wholesale dealers export these crops to outside markets.

The advantages of forming pools are obvious. If the peasants can hold up their produce they would necessarily get better terms. But efforts must be made to impress the advantages of pools on them by educating them, by teaching them the advantages of thrift and by releasing them from the clutches of these money-lenders.

There are absolutely no credit facilities here for financing the products of the agriculturists during marketing. If when the crops are ready the agriculturists get financial help from either the village societies or from any other organisations to meet their immediate expenses—keeping the crops as security—then the agriculturists will not have to sell their crops at a ridiculously low price to the only purchasers, viz., the money-lenders.

When wholesale dealers buy goods of the petty dealers they generally buy for cash and when they in their turn send out those goods to dealers outside they generally grant a credit for two or three months or again when they offer these goods to local retail dealers credit is given for payments in instalments. Sometimes, though very rarely, in this district *hundis* are drawn and cashed by the

Marwaris. The local Chota Nagpur Bank also on the strength of railway receipts and other documents advances money to the seller.

The only form of internal remittance in this district is through the post office.

Defect—Want of credit facilities.

Remedy—Extension of banking organisations.

In this part of the district *hundis* are not current.

In case the drawing up of a *hundi* arises it is the Marwari merchants that draw it and it is they that discount it. There are no commission agents for discounting *hundis*.

If co-operative marketing could be introduced in the district, raising of warehouses would be a necessity. These warehouses should have experts to make gradations of the crops so that crops could be sold by looking at samples or referring to numbers. The Government ought to come to the help of the Central Bank in this respect. The Government will have to provide the initial capital required and also to keep officers to check the working of the warehouses.

3. Value of the land per acre for different kinds of crops in this district is as follows :—

Paddy lands—

1st class—Rs. 25.

2nd class—Rs. 18.

3rd class—Rs. 12.

Tanr lands—

1st class—Rs. 25.

2nd class—Rs. 6.

3rd class—Rs. 2.



These rates were arrived by Settlement Officers during the last settlement of the district. Different rates are sometimes adopted by the land acquisition officers considering the special circumstances.

Whenever land is sold either for non-payment of revenue or by court decree the proper price is not available here because of the restrictions imposed by the Chota Nagpur Tenancy Act.

For revenue-paying lands which are sold free of encumbrances the value is 20 per cent. or more of the net income but the value depends on competition at the time of auction.

For lands sold in court decrees the value is generally below 20 years' purchase, specially for lands in the Ramgarh Ward estate, where they are resumable under certain contingencies. In this case also the value depends on competition.

For lands sold by private negotiation the price is fixed by mutual agreement.

4. The Chota Nagpur Bank in this district, though not styled the Land Mortgage Bank, is to all intents and purposes such a bank. It freely loans out to landlords against lands and to agriculturists of large holdings. I cannot speak for the whole province.

The experience obtained in the working of rural co-operative societies has shown that the prior debts are a serious obstacle to the improvement of the *raiya*s' economic condition and unless some satisfactory method of liquidating them is devised he cannot reap the full benefit of co-operation. Besides this, in the zamindari provinces such as the United Provinces, Bihar and Orissa and Bengal it is common knowledge that the landlord classes are also heavily in debt. They too stand in urgent need of some co-operative institution that may be ready to advance funds to them on the mortgage of their landed property and under proper co-operative safeguards. The longest period for which the existing co-operative credit societies with their limited resources and peculiar limitations, grant loans, varies from three to five years (only recently in the United Provinces the time-limit of the longest period has been raised to ten years) and as it is no part of their business to grant long-term credit they fail to meet, except on a comparatively small scale, the need of either the *raiya*, who is anxious to liquidate his prior debts or the landlord, who wants even larger sums to liquidate prior debts and to invest in permanent improvements to land. The primary object, therefore, of the formation of co-operative land mortgage banks is to facilitate the redemption of mortgages of agricultural land by providing long-term credit.

These mortgage banks should have power to issue debentures if capital from deposits and central institution be not forthcoming. The Government should undertake to take up a large part of these debentures issued by such banks, otherwise it is doubtful whether there would be any market for them. These banks should be organised on the lines of "Landschaften", that is, German land credit banks so that the liabilities of such institutions are to be guaranteed by the State.

The proposed land mortgage banks are to be organised on a limited liability basis. The *raiya* must turn to the existing village society for his requirements in the way of short-term loans. The proposed land mortgage banks are only to give long-term loans. No person can be a member of two unlimited liability societies at the same time and so the new land mortgage bank must necessarily be on the limited liability basis. Land mortgage banks should not go in for deposits to any great extent as the whole object of the scheme would be defeated if such deposits formed more than a small proportion of their total working capital. To start with the amount which can be lent to a member should be restricted to a maximum of Rs. 1,500 as the object of the scheme is to relieve the small debtors. The value of the land mortgaged as security for a loan must be at least twice the amount of the loan. It is further required that the land mortgaged to the bank should be free from prior encumbrances.

The debentures issued on the security of lands mortgaged to the bank will be sold in the open market. The total value of the debentures issued should not exceed the amount covered by the mortgages.

6. In this town of Hazaribagh there are two rice mills and two flour mills—there are two rice mills in Giridih subdivision. Sugarcane is one of the chief products of Hazaribagh district. Large quantities of sugarcane are exported from Ramgarh to Dhanbad and coal-field area through trains. *Gur* is extracted in some places from these sugarcanes. Round about the town and also in the mufassals wherever there is *Koeri* class we find garden produce. On the Manbhum border of the district lacs are extensively produced. Catechu forms the main industry of the district. *Sabai* grass and bamboo pulp are abundant so that paper manufacturing industry might be easily started if only adequate finance and enterprise are obtainable.

The peasants may profitably utilise their spare time by taking to spinning and weaving.

The success of these subsidiary and supplementary industries depends largely on the prosperous agricultural conditions.

Anything helping the agriculturists in getting reasonable prices for their produce would automatically go a good way to improve these industries.

7. As there is no Imperial Bank in this district there is no connection between the Central Bank at Hazaribagh and the Imperial Bank. The Central Bank keeps its reserves with the Chota Nagpur Bank which is a joint stock bank. The Government also in some cases lends money to the Central Bank in order to help the agriculturists.

The result of the short-term loan is that the agriculturists cannot pay back the loans so easily and heavy overdues are accumulating in almost every Central Bank. Short-term loans for works of permanent benefit, e.g., well, and improvement of lands are not at all desirable : for such works long-term loans are necessary.

Short-term loans might be encouraged in the case of purchase of seeds grains, payment of rents, etc.

There is no competition between joint stocks bank and the co-operative bank here in lending. The central bank attracts greater deposits as the rate is higher and as it is supposed to be backed by the Government.

INDIGENOUS BANKING.

1. In the district of Hazaribagh there are no indigenous banks or bankers worth the name. Only a few of the moneyed *Marwaris* residing at Hazaribagh or landlords of villages carry on loan business to a large extent. These *Marwaris* and landlords loan out money at a very high rate of interest on the security of ornaments, jewels, utensils and landed property. They never take deposits from their clients.

2. The private financiers are more a curse than a boon to the agriculturists. These financiers no doubt help the agriculturists at the time of sowing seeds but in advancing money they bind the hands of the agriculturists.

3. These so-called indigenous bankers of the district invest only a small part of their capital in this direction. In case of the landlord money-lenders the huge amount of capital in their hands is generally wasted either in litigation or in luxury, or they hoard up the money. In case of the Marwari money-lenders the money-lending business is subsidiary to some other business.

The landlord has his own tahsildar to collect tahsils of his estate so that he has not to make any extra expense in this direction. On the other hand the Marwaris employ a few greedy men to collect the loan given—who tyrannise over the poor borrowers.

These individual money-lenders have no connection with the joint stock banks or co-operative bank in this respect.

5. These individual bankers provide themselves with funds from their own savings to meet their demands.

As they receive no deposits the question of the rate of interest does not arise.

6. They charge half anna to one anna in the rupee per month for their cash advances to the agriculturists. They charge what is called the *chara* rate when payments are made in kind—this is payment of an additional quantity of grains varying from 2 to 8 seers in the rupee over and above what would be the prevailing rate of price during the harvest season. Or again when grains are lent out for seedling twice as much as or one and a half as much as lent out is charged by way of payment.

Extension of co-operative facilities would considerably bring down these rates. The reduction of such rates merely would not improve the standard of living unless they be educated to that effect and so long as an agriculturist is a tenant at will he will not have any incentive to make any agricultural improvements, but the reduction of such rates would go a long way to decrease their indebtedness and to use better agricultural implements fertilisers, etc., so that their net income would be increased.

7. These individual indigenous bankers fleece their clients and reduce them to poverty; in consequence the agriculturists look with dread at them. Though these bankers charge an exorbitantly high rate of interest yet sometimes the court allows the same on the ground that they were free agents to make such stipulations, so that if anybody has to be protected in law it is not these bankers but the poor borrowers who for their ignorance and pressing wants do not adequately realise the consequences of such inhuman stipulations. It cannot be said that the dealings of this class of bankers with their client are conducted on sound lines for the clients are absolutely at the hands of these bankers. It is desirable that the maximum rate of interest that an individual can charge be fixed by legislation.

10. These bankers are never in want of working capital because they have always sufficient in hand but sometimes they are obliged to refuse loans on account of the unacceptable nature of the security offered or because the borrower refuses to accept their terms.

Additional Questions.

1. The natives of the district lack in banking habit. They are a set of ignorant illiterate people with a low standard of living on account of their poverty. Their illiteracy and poverty explain their backwardness in banking habits. They are eager to handle coins and are not used to notes or cheques. They would rather gladly accept sixty-four copper coins (pice) instead of one rupee note.

4. There is much scope for pawn shops lending on valuables in the interior of the district. The poor ignorant villagers dread the formalities of banks. They would more willingly go to a pawnshop to borrow money on pledge than to a banker. But in order to protect these borrowers legislation is necessary. State-owned institutions will not be of much help because of the formalities.

5. It has often been found that *mahajans* dealing with their customers mix up their trading transactions with banking transactions.

The evil of this is apparent. The customer finds it difficult to separate his liability for loans and his purchase, so keeping of separate accounts would be a great relief to the customers. And this would inspire more confidence in the money-lending branch of the business.

Oral Evidence.

Chairman : You are the Professor of Economics in the Hazaribagh College?—Yes.

For how many years have you been there?—For about five years.

Have you any experience anywhere before that?—I passed out from the Dacca University and after that for a time I was lecturer in the Intermediate College there. (Jagannath Intermediate College).

Your knowledge of economic conditions of this province is limited mainly to the Hazaribagh district?—Yes.

Your home is in Bengal?—Yes.

Professor Batheja : You very kindly prepared some village surveys for us with the help of your students?—Yes. We have a Social Service Guild in the college. The vice-principal and myself with a set of students went out to the villages to collect information there and when the college was closed we asked the students to prepare those reports which we have already sent in to the Committee.

Chairman : I notice you say that agriculturists go out to Burma in survey work. What is the survey work you are referring to?—My information is that they go there for work.

Have you any idea what sort of labour they do there?—Do you mean to say that the survey department of the Burma Government recruit their men from the Hazaribagh district?—I cannot say that but I was told that people go there for survey work on behalf of the India Government. I got this information from the villagers themselves.

Who recruits them do you know?—I know there is one association here which recruits men to work in the tea gardens. Occasionally the contractors from the collieries of Jharia and Ramgarh Bokaro come here for labour recruitment.

Mr. Hodge : Is it for railway construction or something like that that these people go to Burma?—I think they go there to do that work also.

Chairman : Probably it might be for jungle cutting on survey lines that they go there?—It might be so.

Then you speak of big agriculturists Bamans and Bandwats. Are they Hindus?—Yes, they are Hindus. The first are Babhans.

What are the Bandwats?—They are generally monied people and they live mostly in Chai pargana. They are a class of Rajputs.

Where is this Chai pargana?—I have only heard of that place. I do not know exactly where it is, but it is within the Chatra subdivision of this district.

You say that the agriculturists of the district very seldom get help for land revenue purposes. Do you mean the rent to be paid to the landowner?—Yes, I only mean rent.

Is it necessary for them ordinarily to borrow money to pay their rent?—Ordinarily they do not require the loan, for this purpose but only when there is failure of monsoon they go in for loans.

The rent in the Hazaribagh district is not very high, is it?—I do not think it is very high, compared to the neighbouring districts of Gaya and Monghyr : but it is so from the standpoint of the productivity of the soil.

Then you use the word *rehan*. Is that the same as *zarpushgi*?—

The man who lends money is allowed to enjoy the crops for five years or less of the land as interest retaining his right to get the principal he has advanced.

You mean the ordinary usufructuary mortgage?—Yes. The vernacular equivalent of ' usufructuary mortgage ' is ' *bhugat-bandha* '.

You speak of a joint stock bank called the Behari Bank, Ltd. Is that the same as the Hazaribagh Bank, Ltd?—There are only two banks there. I think Behari Bank is the same as the Hazaribagh Bank.

Is the registered title of the bank the Hazaribagh Bank but it is spoken of in common parlance as the Behari Bank?—I think so.

Professor Batheja : Is it organised in the same way as a Bengali loan office?—It is not doing very good business. It is more or less a party organisation.

Does this bank finance small agriculturists?—Yes, sometimes on collateral securities and sometimes on ornaments. It is not in a flourishing state.

What is the working capital of this bank, do you know?—It is much less than the Chota Nagpur Banking Association, Ltd. I do not know what its working capital is.

Has this Hazaribagh Bank got any current account business?—Yes it has.

Who are its directors? Are they generally pleaders and zamindars?—Yes, they are all Biharis.

Chairman : You speak of *mahajans* realising their dues with great cruelty. Are you thinking of the ordinary village *mahajans* who are residents of the village?—Yes. Sometimes the *mahajans* in the towns also send their agents to the villages when the crops are ready to realise their dues.

What sort of cruelty are you thinking of?—These people force the agriculturists to sell their crop to themselves.

Professor Batheja : How do they force them?—They come and sit in the fields when the crops are being harvested.

Do they demand only what is legally due to them?—Yes. But these *mahajans* pay much less than the market price for the produce. They collect the products and sell them in their own *golas*.

Is this information based on your personal experience?—Yes. Especially on the market days the villagers bring in vegetables and sell them out to the people who have advanced money to them.

Chairman : What particular locality are you thinking of?—The Hazaribagh town itself.

Mr. Hodge : Are these agents of the town *mahajans* able to terrorise the people in any way? Do they send out a number of peons to the thrashing floor for example?—Yes, they do so. Sometimes they send their relatives to collect their dues.

Is that what you mean by cruelty?—Yes.

Professor Batheja : Is their process of collecting their debts very much different from those of respectable bankers who remind their customers that their dues are to be paid?—However, I do not say that the *mahajans* are unpopular with the villagers. Whenever the villagers apply for a loan the *mahajan* grants it readily without delay, but if they have to get a loan from the co-operative society it takes a good deal of time and delay in going through the process of getting final sanction.

Then why do you call this method of collecting their dues a cruel one?—The producers do not get any surplus produce for themselves after paying the *mahajans* their dues.

Do you not think that the *mahajan* takes these precautions only to assure himself that he gets his dues without difficulty?—That is so.

Mr. Hodge : Would it not be fair to say that the agents of the *mahajans* are there to see that the producer keeps his promise that he would pay up the dues soon after the crop is harvested?—Yes.

Professor Batheja : And do you think the agriculturist would pay up his dues if special messengers are not sent?—It is difficult to say when speaking of the cruelty of the *mahajans* I am reminded about the *kamia* system which is prevalent in this district. Under this system the borrower is reduced to the position of a serf of the *mahajan* and it would require generations before the loan is extinguished. The money advanced is sometimes a petty amount.

Chairman : Did you find the *dadan* system is very prevalent in the villages?—Yes.

Did the villagers volunteer to give you information?—Yes they gave us all information. Only in one special case the villagers denied the existence of *mahajans* in that particular locality which was, however, not true.

I am talking about the advance. Did you find absolutely clear evidence to show that the producer was forced to sell his crops to the man who had made an advance to him?—The villagers have told us so.

Do you think that this statement of theirs is more credible than their statement that there were no *mahajans* in their village at all? I got their statement corroborated from some people in the towns. Some pleaders have told me so.

Did those pleaders themselves advance money to the producers?—No, but people whom they knew had advanced money.

Mr. Hodge : Did you enquire from the *dudaniyas* themselves?—No.

Professor Batheja : Are most of the crops in Hazaribagh moved by the system of advance by the *mahajans*?—Yes.

Mr. Hodge : Is it your information that these cultivators had already promised to pay to the money-lenders at harvest time?—Yes. That is the practice.

Professor Batheja : What was the difference in the price which was paid by the *mahajan* and the market price, in those cases which you investigated?—In the case of paddy it was two to eight seers in the rupee over and above the market price.

Chairman : Supposing paddy is selling at 10 seers to the rupee, do you mean to say that the cultivator has to sell it at 18 seers in the rupee?—Yes.

R. B. Jalan : Do you mean to say that the rate is fixed beforehand when the advance is made?—Yes.

Did you get this information from the other villagers or the co-operative societies?—From both the sources.

Professor Batheja : What is the price of rice at Hazaribagh at present?—Rs. 5 to Rs. 6-8-0 per maund for unpolished coarse rice.

And do you mean to say that under the system of advance the cultivator sells rice at the rate of 15 or 16 seers per rupee?—I meant paddy and not rice.

Is the *chara* system prevalent all over Hazaribagh?—Yes, in most places of Hazaribagh.

Chairman : Is it prevalent both with the very poor and the very substantial classes of *raiyats*?—It is very difficult to find substantial *raiyats* unless they are also tenure-holders. I find it prevalent in all cases.

Mr. Hodge : Unless he has entered into this *chara* agreement the *raiyat* is a free agent, is it not?—Yes.

Chairman : In the case where there is such an agreement is there any other form of interest charged on the loan?—Sometimes compound interest is charged.

Professor Batheja : Is there any compulsion exercised to force the tenant to enter into such an agreement?—Yes.

How he is compelled?—Because he has no other creditor to go to. He is very poor himself.

Mr. Hodge : Would you say that under the existing marketing conditions the producer does not get a fair deal?—Yes. Almost all his produce goes into the hands of the money-lenders.

Professor Batheja : Have you any suggestions to make to improve those conditions?—Co-operative sale societies would be useful.

Why has not the central co-operative bank thought of starting a co-operative sale society?—They say that with the present staff they cannot carry-on.

Chairman : You have given the values of certain classes of land. Those are taken straight from the last Settlement Report?—Yes.

Since then do you know that the Act has been amended?—Yes, the land is now transferable between tenants of the same caste under the same landlords.

Prior to this there was no free sale among the same class of tenants?—No, not of the *raiyati* holdings not before 1902.

You refer to some zamindari provinces and there you include the Punjab. I suppose the Punjab is a mistake for Bengal?—Yes, I meant Bengal, and not the Punjab.

You advocate the starting of land mortgage banks. Do I take it that you are thinking of meeting the needs of the smaller proprietor

and the tenure-holder rather than the actual cultivator himself?—I also include the *raiya*s unless the co-operative banks will give them long-term loans.

Will not the central co-operative banks be able to give long-term accommodation to *raiya*s by issuing debentures for the purpose if necessary?—Yes, that could be done and the Act itself will have to be amended in certain respects.

Assuming both things could be done, which do you think is the best way of doing it, for long-term loans of the smaller agriculturists?—If the central co-operative banks could be asked to perform that function without any difficulty that would be better.

You think there is scope for a land mortgage bank to serve the needs of the tenure-holder and the small landed proprietor?—Yes.

Professor Batheja : You say that the small proprietor and the tenure-holder is served by the Chota Nagpur Banking Association, Ltd. Then is there any special need for a land mortgage bank?—But the Chota Nagpur Banking Association is not working on co-operative lines.

What do you mean by co-operative lines? Do you mean to say the principle of joint unlimited liability should be applied?—No. I would suggest that the land mortgage bank be established on the share basis and, with limited liability.

Mr. Hodge : What should be the area according to you, where a land mortgage bank should operate?—It might operate for the whole of the Chota Nagpur division.

Chairman : You think Chota Nagpur would be a suitable unit for it?—Yes.

Professor Batheja : Is the catechu crop an important industry in Hazaribagh?—Yes.

Chairman : Is the business organised in any way?—No.

Are there certain traders who deal in this produce exclusively?—No.

Professor Batheja : Is this crop exported outside Hazaribagh district?—I do not know where it goes but it is exported, I learn.

Is it all consumed in the district?—There is no organised export.

Chairman : Do the Marwaris do a great deal of money-lending in the Hazaribagh district?—Yes, they do the business through their own men or agents. Some of these Marwaris deal in cloth and they are money-lenders as well.

Professor Batheja : You say they terrorise their debtors. How do they do so?—The money-lenders take advantage of the ignorance, illiteracy and need of the borrowers and sometimes falsify the accounts.

Chairman : Where did you get this information from?—From the man who sells *ghee* at my house and servants.

Do such people take money from the Marwaris?—My *gheewala* did not take the loan himself, but he got this information from some of his friends.

That is hardly lending to agriculturists, is it?—That is my information.

Mr. Hodge : Do these Marwaris employ peons to go round and collect their dues?—They do so.

Professor Batheja : Do they employ any low-caste man to do *dharna* at the door of their borrowers as we find in Orissa?—I do not know.

What sort of legislation would you suggest for protecting those people who deal in pawnshops?—The maximum rate of interest should be fixed.

Do you think that these proposals of maximum rates of interest have ever succeeded in their object?—If you could give greater facilities for giving cheap money to these indigenous bankers then they will agree to fixing the rate of interest. They should be linked with the money-market.

Chairman : What penalty would you impose on the money-lender if he charged higher rates of interest?—The claim would be disallowed by the court.

The Usurious Loans Act empowers the court to reduce the interest at present, does it not?—Yes.

Would it serve your purpose if the law laid down a definition of usurious loan, or indicated what usurious interest is?—We have to take the circumstances of the borrowers into account also.

R. B. Jalan : What you think should be the maximum rate of interest which the pawnshops should be permitted to take?—Rs. 1-2-0 per cent. per month would be a suitable interest.

R. B. Dhandhanja : In spite of the many facilities enjoyed by the co-operative central banks they charge as high as 18 per cent. interest per annum, then how do you expect the indigenous banker to charge only 13 per cent. without these facilities?—That is why I say these indigenous bankers should be co-ordinated with the money-market.

**Rai Sahib SURENDRA KUMAR DATTA, Pleader, Chairman,
Chatra Municipality.**

Replies to the Questionnaire.

QUESTION 1 (a), (b), (c).—The agriculturist in this subdivision generally obtains finance for all the purposes noted in (a), (b) and (c) by taking loans in cash or in kind from (1) *mahajans*, (2) zamindars, (3) local tenure-holders or *rai-yats*, and (4) from foreigners, e.g.,

Punjabis, Gossains of Chapra district and so on. An agriculturist of some standing usually approaches a *mahajan* with whom he has had previous transactions for loans in cash, but for the loans in kind, e.g., paddy, he has to approach a zamindar or a local tenure-holder. The general tendency of the *Khaduks* is not to approach the foreigners for a loan, whenever he could raise it from a *mahajan* of the locality, the reason being that a foreigner charges an exorbitant rate of interest and also puts the *Khaduks* to much harassment at the time of realisation. The most common rate of interest charged by a foreign money-lender is one anna per month per rupee. The present class of *raiya*s, e.g., Bhuians, Bhogats, etc., appears to be mostly exploited by such money-lenders. As far as this subdivision is concerned, the *mahajani* business is carried on largely in Chatra town and Chauparan. Their number, the most substantial of them, is limited to 7 or 8 and it appears that the business covers an amount not less than Rs. 5 lakhs. Generally they have cash transactions and they charge a rate of interest for small sums at the rate of Rs. 2 to Rs. 3 per cent. per month and for large amounts at the rate of Rs. 1-8-0 per cent. per month, *salasal beaj* or compound interest is invariably charged. There is a common saying here that a loan of Re. 1 with interest at Re. 1 per cent. per month, according to *salasal beaj* systems, yields in 100 years more than a lakh. The zamindars generally advance loans in kind and charge interest according to *Barhi Derhi* rate. This is also a very exorbitant rate yielding 100 per cent. in the very second year. If a *Khaduk* takes a loan of one maund of paddy during the cultivation season this year, say, in Asarh, he will have to repay two maunds in Aghan next. This system practically yields 100 per cent. interest only in six months. All these loans are ordinarily taken for one year only, when the amounts involved are small. No security is given or accepted in such cases. Ordinarily such small loans are advanced on *hathchitas*, hand-notes. Unregistered documents, on taking thumb impressions or signatures on the *mahajans'* *bahi* in which the details of the loan including rate of interest are entered in brief and sometimes, though rarely, on mere verbal agreements. In case of larger amounts of loans, *makfulas rehan* and *bhugat-bhanda* deeds are executed and registered, when the transaction is between a *mahajan* and *raiya*, but when it is between *mahajans* themselves the transactions are conducted in *bahis* and *hundis* usually. Standing crops do not appear to be given or accepted as security. One of the commonest conditions attaching to the grant of such loans prevailing in some parts is that the *Khaduks* are required to pay an amount which is called *girah kholai* at Rs. 2 to Rs. 5 per cent. at the time when the loans are advanced to them. That is to say, a *mahajan* grants a loan to a *Khaduk* after deducting his *girah kholai* money.

There is no co-operative or any other bank in this subdivision at present. There was one at Jori called Jori Bank some years back. It was a private enterprise. It proved a failure and it is no longer in existence. The part played in agricultural finance by Government is only nominal, as would appear from the marginally-noted figures

as to how much money has been advanced year by year for the last five completed years (a) as agriculturist loans and (b) as land improvement loans. Practically speaking, the *mahajans* play the largest part in financing agriculture in the subdivision notwithstanding their exorbitant rate of interest. The usefulness of the Loans Acts appears to be considerably hampered by the following defects in them:—

- (1) Elaborate procedure and formalities preventing a *Khaduk* from raising a timely loan with the least possible difficulty.
- (2) Amounts at disposal being too small to meet the necessities on a wide scale.
- (3) Joint responsibility of the borrowers in a single transaction in the case of agriculturist loans.

The defects can be remedied by suitable amendment of the Acts on the one hand and by putting loans under care of special department, which may fittingly be in charge of the Co-operative Department or of the Circle Officers under supervision of the Co-operative Department. At present there is very little co-ordination between the several credit agencies as a whole in the subdivision. If there is any, it is between individuals according to their own choice. There may be some chance of improvement in that direction only if Government intervenes. Some sort of an opposition is likely to occur at the beginning, but as soon as they appreciate the utility of co-ordination and co-operation for the purpose of advancing the common good in the common interest, such opposition and hostility, if any, will certainly disappear. In my humble opinion it is quite possible that closer co-ordination between Government and other credit agencies financing agriculture may be established provided (1) that special facilities are given to some selected money-lenders as to the interest to be allowed on debts and also for realisation of loans from individual *raiyats*, (2) that Government loans are advanced to such *mahajans* in cases of necessity, on specially attractive terms, and (3) that earnest attempts are made to banish from the minds of the villagers the bogey of *Sarkari* money by means of suitable methods. The main point involved is this as to how to catch the fancy of the village folk, because once they are made to take a fancy to the *Sarkari* money, the problem will gradually solve itself. And this can only be done by proceeding through selected village money-lenders with funds supplied to them on special terms. The total amount of capital required for the various purposes stated above may be estimated at Rs. 1 lakh approximately in this subdivision.

QUESTION 2.—The principal crops in this subdivision may be divided under two heads for the purposes of import and export. Some food-grains are imported into this subdivision, the local produce being insufficient to meet the local needs, such as rice, *makai*, gram, wheat, etc. Other daily necessities are also imported here, such as cloth, salt, sugar, condiments, etc. The following articles are exported from this subdivision:—*kath* (catechu), lac, ghee, *sarso*, *til*, *mahua*, *sabai* grass and

ropes, etc. The articles for export are generally sold through commission agents, who charge commission both from the seller and the purchaser at different rates according to the kind of articles concerned. For instance, a commission agent would charge commission at the rate of 5 annas per maund from the seller and one anna per maund from the purchaser in case of lac, *kath* and ghee.

There are two kinds of *hundis* prevalent in this *elaka*, viz., (1) *pahunchedam* and (2) *muditi*. Of these the former appears to be more in use. It is generally issued on Calcutta merchants with whom the *mahajan* issuing the same has transactions. For instance if a *mahajan* of Chatra has sold articles worth Rs. 10,000 to a Calcutta *mahajan*, ordinarily he does not take back the price in cash from the latter. The money is allowed to remain with the Calcutta *mahajan* who pays interest at the rate of 8 annas per cent. per month and in case of necessity the Chatra *mahajan* issues *hundi* on him up to the limit of that amount. No stamp duty appears to be charged on the *pahunchedam hundis*.

QUESTION 3.—The value of *raiya* interest sold privately is ordinarily ten times the market value of the net income from the holding in question, whereas the value of a proprietary interest so sold is usually twenty times the net income. The value of such lands sold in auction in court is ordinarily much less than the above rates and seldom exceed the same.

QUESTION 4.—There is legal impediment to mortgage of agricultural holdings on a permanent basis under the Chota Nagpur Tenancy Act, which is to some extent disadvantageous to raising of loans. It may be considered how far the selected money-lenders may be allowed facilities with a view to remove the legal disadvantage.

QUESTION 5.—The people of this subdivision require about a lakh of rupees for meeting the expenses by securing loans from *mahajans* each year. They require money for the purposes embodied in clauses (a) to (h) but they spend much money in marriage ceremonies. It is a fact that the agriculturists and other people are being reduced to poverty by the unusual oppression and cruelty of the *mahajans* of this part. The agriculturists sell and other land-holders transfer their lands into the hands of *mahajans* in satisfaction of the debts they incur from the money-lenders and gradually they put themselves entirely into the hard grip of the unscrupulous money-lenders, who ultimately become the owners of the lands and of the landed properties.

QUESTION 6.—There are no subsidiary industries allied to agriculture in this subdivision, such as rice-milling, dairy-farming, etc., but *gur*-making is done by villagers on very small scales.

QUESTION 7.—There is no co-operative bank or society in this subdivision. The *mahajans* appear to be very reluctant to support such an idea but at the same time they admit that the only possible remedy to save the *Khaduks* from excessive interest (*salasal beaj*) lies in establishing such a society or bank.

Oral Evidence.

Chairman : You are Chairman of the Chatra municipality?—Yes.

That is one of the subdivisional towns in the Hazaribagh district?—Yes.

Is there a co-operative bank in Chatra?—No.

Is there any society in the neighbourhood?—No.

You have no experience of the working of co-operative societies in that part?—No.

You use the word “ Khaduks ”. What does that exactly mean?—Those who borrow money.

Is lending in kind very common in Chatra?—During the cultivation season they generally take seeds from other cultivators or tenure-holders.

What rate of interest do they pay for that?—If they take one seer they pay two seers in the first year. For the second year $1\frac{1}{2}$ seers more.

Is the man usually unable to pay off what he has borrowed for his seed at the end of the harvest?—No.

Does the compound interest come into play very often?—Not in kind.

If he borrows paddy for consumption purpose, not for seed, does he also pay the same rate?—In most cases when the grains are taken in kind for home consumption this double and $1\frac{1}{2}$ system are enforced.

Whether it is for seed or for consumption?—Yes.

Do you think there is any scope for starting grain banks in that area?—In which way?

The way they have been started elsewhere. In a good year the *raiya*ts have been induced to come forward and put in a small amount each and thereby gather together something like 20 maunds in a village. That is stored somewhere and whenever they want seed they can borrow and the rate of interest is perhaps put down as low as 25 per cent. The stock gradually grows up and in course of time they have a large stock to borrow from?—An experiment might be made but first of all they will have to be educated that it is for their own benefit.

There is a very considerable amount of grain lending in Chatra so that it would be a fairly fruitful field for such an experiment?—Yes.

Mr. Hodge : What do you mean by a foreign money-lender—some one from outside the district?—Sometimes people come from Chapra side who are called Gossains and sometimes the Sikhs also come.

Professor Batheja : Have you ever talked to any of the Gossains?—No. I have heard of them from my clients.

Where do they get their money?—They bring the money from their own district.

Why are they called Gossains?—They are a class. They put on grey clothes.

Mr. Hodge : The zamindars do a great deal of money-lending there?—I think in Hazaribagh district there is not much lending because the Ramgarh Estate covers two-thirds of the area and one-third belongs to Kanda Estate. Then we have petty zamindars. They are in debt. We can take it that 2 per cent. of them give these loans.

Professor Batheja : Otherwise most of the money-lending is done by substantial *mahajans*?—Yes.

What is the working capital of a village *mahajan*?—Rs. 3 to Rs. 4 lakhs.

And there are seven or eight leading *mahajans*?—Yes.

Chairman : Do they attract deposits at all?—They have their own money.

There is no one in Chatra who is really a banker?—No. When they require more money they borrow from Calcutta.

Professor Batheja : Who are they?—They are all Marwaris.

Chairman : *Girah kholai* means something paid for opening the purse?—Yes.

Professor Batheja : Is this *girah kholai* charged by the Gossains?—Yes, so I hear, but it is dying out.

Do these Marwari *mahajans* also charge something as *girah kholai*?—They used to, I hear.

You must be knowing some of these *mahajans*; do they actually charge *girah kholai*?—I cannot say.

Chairman : What kind of bank was the Jori Bank?—Some tenure-holders, some cloth merchants and some grain merchants combined themselves and made a common party and used to lend money.

Professor Batheja : It was not registered under the Co-operative Societies Act?—No.

Chairman : Nor as a joint stock bank?—No.

In what area were they operating?—Over about ten or twelve miles.

And their headquarters was at Jori?—Yes. It is nine miles from Chatra.

Professor Batheja : Why did the bank fail?—Because there was misunderstanding among the partners.

What was the capital?—I think Rs. 20,000 to Rs. 30,000.

Chairman : As long as the prime mover was alive it was fairly successful?—Yes.

Did they get deposits also?—No.

Professor Batheja : What rate of interest did they charge?—From Rs. 50 to Rs. 200, 37½ per cent. Above Rs. 200, 2 per cent compound, annual rests.

Has the Co-operative Department ever explored the field for starting societies?—Nearly seven or eight years ago one gentleman came and

held a meeting with the Subdivisional Officer. He was there only for half an hour and nobody turned up.

Mr. Hodge: You think there is great need for co-operative movement?—I think if they are to be a good organization and if the object and scope of these co-operative societies are fairly explained to the rural people I do not know why these people would not come forward. I think these co-operative societies or their members or the high officers are not in earnest in their efforts. Of course, after passing of this Usurious Loans Act in our subdivision, as there are generally Subdivisional Officer-Munsifs who generally look to the facts more and not to the technicalities of the law so much, the people are to some extent safeguarded by their interference.

Chairman: In Chatra where the Subdivisional Officer is the civil court there is a definite use made of the Usurious Loans Act?—Yes. There is some difficulty in section 16 of the Contract Act that there was no intention to coerce the borrower at the time of the execution of the bond. Then at the same time the court should remember the necessity of the borrowers and their knowledge and capacity of understanding. Those things should also be considered and we should see whether the one party is in a position to predominate the will of another.

But outside the section of the Contract Act that you have quoted, the Usurious Loans Act allows the court to examine the whole transaction?—To see whether the interest is excessive or not.

Would you advocate laying down a standard of excessive rate of interest or even a presumption that anything above a certain rate is usurious?—Suppose we prove the custom of 2 per cent. then where is the necessity.

Is that the line that the Subdivisional Officer adopts? Is he satisfied if the custom is 2 per cent. per month?—That depends on the idea of the individual officers. Nowadays the Subdivisional Officer-Munsif gives 2 per cent. simple but not 2 per cent. compound.

Would you advocate any change in the law in the matter?—I should think that there should be some idea or direction given to these officers as to what would be the excessive standard, at any rate at the starting point.

Mr. Hodge: Do you think the debtor is familiar with the terms of the Usurious Loans Act?—No.

Chairman: Does the Bar in Chatra take the point in any of these money cases that the interest is usurious?—They generally take.

You have a considerable amount of experience of these money suits in Chatra courts?—Yes.

I understand that there are three main classes of these money suits. The first which proceeds on the *khata-bahi*, the second on the hand-notes and the third on simple mortgages or simple bonds. As regards *khata-bahi* what defence is usually put up?—That the debtor has not taken so many articles and that interest is excessive. There is another system

which is called *hath-chiths*. Then there is the adjustment of accounts of *bahi-khata* and the debtor is indebted to the extent of Rs. 50 or Rs. 60 after the adjustment. In that case they give the defence that no account was adjusted and we were not explained the account.

R. B. Julian: Though the account was adjusted and balance brought up?—Yes.

Chairman: Then ordinarily speaking in the *khata-bahi* system the money due for sales on credit of goods including sales on credit of cloth and money due for paying loans are mixed up?—Yes.

It is not usual for a trader money-lender to keep separate accounts?—Yes.

Then I understand that the defence which is frequently put up is that the interest charged is excessive?—Yes.

The second defence is that the principal has been paid up but the interest has accumulated so that it is now excessive?—Yes.

Professor Batheja: And also the sale of articles is denied?—Yes.

Chairman: In regard to the hand-note cases the ordinary defence is that either the amount has been repaid, which is generally a false plea, or that the hand-note has been taken on a blank sheet of paper on which the thumb impression was taken and that the amount due was filled in afterwards and in your opinion that is also a false plea as between the money-lender and his client though you are inclined to suspect that in matters of rent a dishonest landlord will play that sort of trick on his *raiya*?—Yes, it is not general but occasional.

In regard to suits of simple mortgage what defence is put up?—That money was not taken though the mortgage has been executed.

Is that defence usually false?—At least in our subdivision we have got decrees.

May I ask you whether you appear for the money-lender or for the client?—I should say, whether it is my fortune or misfortune, I represent the big money-lenders. Sometimes for the defence also.

Then your experience of the manner of keeping books of fairly big money-lenders is that they do represent the transactions that have gone through?—Yes.

Mr. Hodge: Do they grant receipts for every payment made?—No.

What protection has the borrower got?—Without the receipt nobody believes him.

Why do the *mahajans* not give receipts?—If it can be enforced I should say it would be a good check. At the time of payment the signature or thumb impression might be taken.

Chairman: Would it not be better to enforce giving of receipts?—Yes, certainly, but signature of the borrowers of articles and of money also should be taken at the time of advancing the money or article.

How do you think the big money-lender, at any rate, would view a provision of law that he was obliged to give a receipt?—I do not think they would grudge.

Professor Batheja: You think, on the whole, that in your part of the country the dishonest money-lender is more common than the dishonest creditor?—I cannot say about the petty *mahajans*, but the big *mahajans* are generally not corrupt.

R. B. Jalan: How long does the case take in courts?—The *khatabahi* cases take about six months.

Chairman: The hand-note cases?—Three to four months while the mortgage cases take about a year.

Why do the mortgages take longer?—I do not know whether I need telling this; the officials know it. The officers have to give an explanation for keeping pending money suits for more than six months and title suits for keeping pending for more than a year, under the High Court Circulars. The mortgage suits are classified as title suits; and in mortgage suits complicated questions of law and fact arise, and all parties interested in the mortgaged properties are to be joined as parties under law. Hence the delay in mortgage suits.

The mortgage suits are classified as title suits.

Mr. Hodge: What percentage of these money suits are contested?—It would be about 30 per cent.

What is the percentage of money suits to the total number of suits at Chatra?—Very low.

What is the total number of suits filed in Chatra?—Altogether 300 a year, of these money suits are about 200.

R. B. Dhandhanja: What is the rate of interest in the *makfulas rehan* and *bhugat-bandha* deeds?—It is about 24 to 37½ per cent.

Chairman: Have you any idea what profits the big *mahajans* make on money-lending business after taking into consideration the litigation expenses, etc.?—I think it would be 10 to 12 per cent. per year.

Professor Batheja: Allowing for bad debts too?—Yes.

Chairman: Could you give us any kind of estimate of the village *mahajan's* net profit?—They are only petty money-lenders and they get a bit more. It would be about 18 per cent.

R. B. Jalan: Does this include family expenses?—No. It includes litigation expenses, loss for non-payments of debts and for emergencies.

Professor Batheja: But their turn-over is rather small?—Yes. The only means of improving the condition of these agriculturists in our subdivision, I should say, is that as these cultivators depend for their produce of the land on rains, and there is no embankment or irrigation source. These cultivators should be helped with embankment and other sources of irrigation.

Chairman : You think there is scope for improvement of the irrigation in the subdivision?—Yes. The Ramgarh Wards Estate has been doing this for some years. Unless and until we reserve our water for irrigation how can we improve the produce. First of all it would be useless to give any agriculturist money unless and until we can make possible means for improving their lands to yield better produce.

Can you give us any sort of idea as to how much could be usefully spent for the irrigation improvements that you contemplate for the Chatra subdivision?—About Rs. 2 lakhs. The Ramgarh Wards Estate spend Rs. 15,000 to Rs. 20,000 each year.

If in the next ten years you spend Rs. 20,000 a year on Chatra, would you at any rate do a very great deal?—Yes.

You speak of the Ramgarh Estate doing this. They are capable of doing it out of their own funds?—Yes.

But would other landlords be able to do anything if they could borrow money?—I think so. In my subdivision almost all the tenure-holders as well as the agriculturists are very poor and 70 to 80 per cent. are indebted.

Suppose money was handed over to them at a reasonable rate of interest, do you think they have got the enterprise to do this work?—I think so.

You estimate the value of the *raiya* interest at ten times the net income?—Yes.

That is to say it should be capitalized on the basis of net income. The trouble about the Chatra subdivision is that there is no such free sale as would enable one to get the figure for the value of the *raiya* interest?—I have calculated on this basis. Supposing one *bigha* of land is given on *bhugat-bandha* to a person to cover interest as well as principal I have taken the area as well as the amount. But that is a hypothetical case not a real case. The law has been changed to this extent that *raiya*s can sell their lands to caste men with the permission of the Deputy Commissioner and in certain cases some have got the Deputy Commissioner's permission.

What is the rate per acre that the *raiya* holdings work out to?—Taking an average it would be Rs. 40 to Rs. 45 for paddy lands.

Your figure is lower than the Deputy Commissioner's. Your figure is perhaps for restricted sale?—Yes.

Have you any suggestions to make about the financing of industry in the Chatra subdivision?—I should say we have got catechu, lac and *sabai* grass and sugarcane. Lac may be cultivated. There are four private factories. By that the poor agriculturists may be benefited by working in the factory.

May we take you rather especially on catechu? What actually is done with that?—They get it from the jungle. The *mahajan* advances money to the persons to pick up the branches of the trees. The Mullahs who do this work take one or two hundred rupees and take settlement of the jungle from the zamindars. They prepare the catechu. There

is an understanding that they will sell to the *mahajan* at a certain rate. The *mahajans* take advantage of it. At the same time we should consider the risk also. I have seen a *mahajan* paying Rs. 12,000 to a Mullah who had only a hut. So they have to take every precaution and run the risk. If there be an elaborate system or an organisation of two or three well-reputed persons for giving them advances and starting a business it will benefit the poor classes.

What exactly does the Mullah do?—He cuts the branches to pieces and then boils them in earthen pots called *handis*. The juice comes out. Then he pours it out of the earthen pot on the ground so that it may consolidate.

Then they bring it in to the *mahajan* who has advanced the money in that form?—Yes.

Professor Batheja: Is it consumed locally?—It goes to Calcutta.

Chairman: What class of people do the money-lending?—Marwaris and other *banias*.

Why have they to advance such large sums?—There would be initial expenses for cutting, preparing and paying the employees.

Do not the Mullahs do the work themselves?—Yes. But they cannot get the capital.

Is the capital required to pay the landlord for the right to cut the jungle and a certain amount is required to maintain the families who work there?—Yes.

Professor Batheja: Is the money used for any other purpose besides that?—No.

Chairman: Does the Khasmahal in Palamau take as large a fee as an ordinary zamindar?—I do not know the difference but it is a fairly substantial fee.

Professor Batheja: What is the value of the catechu business in the Chatra subdivision?—About Rs. 1 lakh to Rs. 1½ lakhs.

It is sold by commission agents in Calcutta?—Yes.

Is there any other place in any other district in this province where catechu is produced?—Yes, in Palamau.

Are there any sources of supply outside the province?—Yes. Madras and Chittagong.

Chairman: So that the prices paid to the Mullah for doing this work really depend upon the demand and supply in Calcutta?—Yes.

Is any other business of this kind done?—There is the lac business. As regards lac eight or nine years before we had a business worth about Rs. 6 lakhs but now it has come down to about Rs. 2 lakhs to Rs. 3 lakhs.

What is the way of marketing *ghee* in Hazaribagh?—*Ghee* comes in from mufassal and they get *dadān*.

Is it your impression that apart from *ghee* and *kath* (catechu) there is much of the *dadān* system in marketing in the Chatra subdivision?—Yes. They give *dadān* for grain also.

Is the *dadan* system much in vogue for grain marketing?—Yes, about half.

Is the man who takes *dadan* obliged to sell to the man who gives the advance?—Yes.

Is he obliged to sell on particular terms?—It depends on the choice of the person who gives the advance.

Professor Batheja : Who gives the *dadan*—the big *goludars* advances to *beparis* and the *beparis* to the cultivators?—Yes.

Chairman : Suppose a man receives *dadan* from a particular dealer and he goes along and sells his produce to another dealer who is prepared to pay a slightly higher price, can the money-lender do anything?—He can do nothing, except going in court for the refund of the money with interest.

Is that a fairly common situation?—No, because these agriculturists are connected in so many ways with the *mahajan* that they seldom go to others though they get better prices.

Do the dealers then apportion out the subdivision among themselves or is there any competition among them?—Generally they have got their own *beparis*.

Suppose the *bepari* of 'A' gives *dadan* to a *raiyat* and the *bepari* of 'B' offers slightly better terms, is the *raiyat* obliged to take 'A's' offer?—That does not happen so often.

You mean to say that 'A' has a definite *elaka* and 'B' a different *elaka*?—Mostly they do.

Professor Batheja : Does the cultivator under this system get a fair price for his produce?—I think it is a bit unfair.

Chairman : In the *dadan* system I understand the price is definitely settled that you will sell so many maunds of produce to me in return for this advance at say eight seers to the rupee?—Yes.

It is not in any way linked on to the market price that may be prevailing at the time of repayment?—No.

They do not say you will have to sell at two seers lower than the market price?—At the time of advancing money they say that when the crop is ready and it is harvested I shall take the crop at such a rate.

Then the *dadan* system is merely that an advance is given in cash at the cultivating season and the borrower undertakes to sell whatever surplus he has got to the lender at a price the combination of the lenders may fix at the time of harvest?—Yes.

Does he not take any interest on the advance?—He takes interest.

Professor Batheja : You say that attempts are made to banish from the minds of the villagers the bogey of *Sarkari* money by means of suitable methods. Will you please explain this?—For example these loans are given in the charge of the Subdivisional Officer. He gives it to the clerk and there are peons and writers, etc.

Mr. Hodge : Could you say that the demand is there but they are afraid to express it?—I do not know.

Professor Batheja: Do you think that the villagers have more confidence in the money-lenders and therefore, you suggest that the agriculturist may be financed through selected money-lenders?—Yes. Or by officers whose main duty it would be to be in touch with the agriculturists.

Are they afraid of joint liability?—Yes.

Professor Batheja: Would you give facilities to these money-lenders in order to induce them to take up this business?—Yes.

What facilities would you recommend?—Supplying finance at a low rate of interest. They must be under the control of Government and the risk must be of Government.

Suppose the money is not returned. On whose shoulder should the loss fall—Government or the money-lender?—There may be a certain proportion because both are interested. First of all I should like that the agriculturists should be explained that this was to their advantage and the idea of fear of Government should be removed.

Are you not in favour of starting co-operative societies?—If there is work.

If it is properly organised, do you think the Co-operative Department would meet the case?—But there is no work.

You think the money-lenders would be the most suitable agency?—Yes.

How do you reconcile the statement that the people are being reduced to poverty by the unusual oppression and cruelty of the *mahajans* of this part?—I have stated generally the case in connection with the petty money-lenders.

Would you distribute this money through big *mahajans*?—Yes.

What is your idea of big *mahajan*? How much capital has he got?—From Rs. 2 to Rs. 5 lakhs.

Would you control them in any other way, say audit their accounts?—Unless I consult them, I cannot say.

Would you consult them and let us have your views?—Yes.

Mr. B. C. BARAL, Agent, Imperial Bank of India, Darbhanga.

MEMORANDUM.

(This contains the personal views of Mr. B. C. Baral.)

I. AGRICULTURAL CREDIT AND CREDIT FACILITIES FOR SMALL INDUSTRIES.

In this district (Darbhanga) agriculturists are composed of the following classes of people :—

- (a) *Local zamindars* possessing “*zerait*” lands in their zamindari, which lands are cultivated by themselves, through their “*raiya*ts” either on half-produce system

(i.e., half of the produce goes to the zamindars while the remaining half to the *raiya*s) or by paying them daily wages (which is usually 6 annas per diem or produce of the same value) for the number of days their services are required for the purposes. In the former case all the expenses for the cultivation are borne by the *raiya*s who are generally financed by the zamindars charging interest at rates ranging from $18\frac{1}{2}$ to $37\frac{1}{2}$ per cent. Zamindars generally do money-lending business also and finance *raiya*s in their special needs (e.g., on the occasions of marriage, *sradh*, purchase of agricultural implements and cattle) charging interest at rates mentioned above.

- (b) *Middle class people* (or *grihastha*) who have lands of their own and for which they pay a fixed revenue periodically either to zamindars or Government. They have sufficient at their disposal to meet the major portion of the expenses during cultivation. In case of need (not only for agricultural but for other purposes also) they are financed either by the local Government, zamindars, money-lenders, or co-operative societies charging interest at rates ranging from $6\frac{1}{2}$ per cent. to $18\frac{1}{2}$ per cent.
- (c) *Farmers* who have lands of their own and for which they pay a fixed revenue periodically either to zamindars or Government. This class of people are very poor and cannot meet the expenses during cultivation without recourse to borrowing from zamindars, money-lenders or co-operative societies at interest ranging from $12\frac{1}{2}$ to $37\frac{1}{2}$ per cent., loans at the former rate are available only from co-operative societies.

The town money-lenders, and merchants also advance money to the village cultivators through their agents or dealers on condition that at the time of harvest their loans should be cleared with accrued interest in kind (grains). The price of the kind should be settled in accordance with the ruling market rate of that time, less the cost for carrying such produce to the town. If, however, for some reason or other the crop fails, the money-lender realises as much as possible and grants the cultivators further loans during the year which are realised with yearly compound interest from the following year's production. In practice the loans are never cleared but carried forward from year to year. The cultivator becomes a slave and works under stress for *mahajan*—his earnings being diverted into the pocket of the financier in the shape of interest. Indeed his conditions are deplorable, he is provided by his financier only as much as is necessary for his bare existence.

The loans are sometimes given in kind (grains). In such cases the loans are cleared after the harvest by paying $1\frac{1}{2}$ times of the grain advanced at the time of sowing.

Major portion of this class of people (farmers) are illiterate and being ignorant of the process whereby advances are obtainable from Government or co-operative societies at moderate rates of interest, have no other means of raising funds but to take recourse to village money-lenders, town merchants and dealers or zamindars, paying exorbitant rates of interest. The inevitable result is that loans once taken cannot be easily shaken off.

The farmers obtain finance by executing (or by putting their thumb impressions in the presence of two witnesses) demand promissory notes in favour of the financier but when the loans are taken from co-operative societies they are required to mortgage their properties by surrendering the title-deeds and executing an equitable or registered mortgage. As already stated these loans generally are of a continuous nature as the farmers cannot redeem their loan in full with interest from the sale-proceeds of their surplus crops. Advances of large amounts are always secured by the registered mortgage of the landed properties.

The Government grant loans to approved agriculturists for purchasing seeds, cattle, agricultural implements such as motor tractors, etc., from the annual allotments sanctioned for the district. In exceptional years (e.g., when crops fail or floods wash away the seedlings, etc.) such allotment amounts to rupees one lakh or over while in normal years, it varies from Rs. 15,000 to Rs. 20,000. These loans are granted only to agriculturists who possess at least one bigha of land. The small advances are usually granted on joint liability system while large sums are advanced on personal security of some reliable man or on some other approved security (e.g., mortgage of land, etc.). Repayments of such loans are made in five yearly instalments with $6\frac{1}{4}$ per cent. interest.

Co-operative Central Banks of the district grant loans to the agriculturists through their affiliated societies in the villages but good many (say 75 per cent.) agriculturists refrain from taking help of such societies, as being illiterate they do not understand the methods of these institutions. Moreover they are threatened by the village money-lenders that if they approach the societies for taking loan on agricultural purposes (for other purposes societies advance only to a very small extent), no advance should be made by them (money-lenders) when they are in need of money for non-agricultural purposes (e.g., marriage, *sradh*, etc.). Strictly speaking only the middle class agriculturists enjoy the benefits of the co-operative societies. The rates of interest charged by these societies are $12\frac{1}{2}$ to $15\frac{1}{2}$ per cent.

It would not be out of place to mention here that the cultivators of the villages where there are no societies (societies exist only in a limited number of villages) have no other source of obtaining finance but the village money-lender and zamindars.

There is no Joint Stock Bank or Indigenous Banker in the true sense of the word in this district. (By the word Banker I mean those who accept *deposits* and also *lend* money.)

Being unaware of the number of villages in the district or province, it is difficult for me to estimate the total amount of capital necessary for financing the cultivators for various purposes. From enquiries made in the neighbouring villages it has been found that the average indebtedness of the cultivators in each village is approximately Rs. 4,000. The debtors themselves do not know how much they have borrowed for agricultural purposes and how much for other purposes. They simply know the approximate amount of their total obligation excluding interest.

It would not be out of place to mention here that advances to cultivators involve much risk as they cannot be trusted with money in hand in excess of what is absolutely required for some definite purpose. The surplus money is sure to be abused (e.g., in gambling, drinking, instituting suits against neighbours, etc.). Repayment from them is not obtainable except under compulsion. I presume that if the burden of debt were lifted from them, the cultivators, only with a view to improve their lot, surely would not have laboured so hard as they are now doing under indirect compulsion; probably they would produce only as much as is sufficient for their own immediate needs, so that the non-producer would then suffer from scarcity; again considering the risk involved, the money-lenders are justified in charging a little higher rate of interest although not to the extent as they are now charging. A maximum rate of 15 per cent. is commensurate with the risk involved. As a result of high rates of interest now charged the poorer agriculturists are gradually extinguishing as they have often to sell their lands voluntarily or through the intervention of courts in payment of their debts. There appears to be no remedy for the evil so long as the mass is not educated.

There is no co-ordination amongst the various classes of money-lenders, everyone is independent of others. No remedy in this direction seems possible unless definite rules are framed by legislature, as, all of them are guided by personal interests, and do not wish to disclose to others what they are doing.

The rates of interest charged by the same firm to different constituents are different. The rates are settled taking into consideration the urgency for the need of money and the risk involved.

II. METHOD OF MARKETING PRINCIPAL CROPS.

1. Crops when harvested are brought by the cultivators either to village or town markets and are sold to dealers at the highest available market rate of the day. These rates are dictated by the local merchants having branch offices in Calcutta taking into consideration the ruling bazar rate of Calcutta on the day.

2. The dealers who are financed by the bigger merchants sell the produce so purchased, to their financier or to some other merchants at whose instructions the purchases were effected, charging a little higher rate. These dealers are usually charged with 12 per cent. interest by their financier.

3. Crops are held in stock by merchants in hope of disposing at an inflated price on some future date, sold to consumers, exported direct to their Calcutta agents, sold to the local agents of exporting firms or railed to neighbouring districts where these may be sold at a profit. The merchants are financed by their Calcutta firms or by the local money-lenders.

Methods of obtaining finance are :—

(a) Demand *hundis* drawn on a Calcutta firm are discounted either to an importing firm (who is in need of remitting money to Calcutta) or to the bank. The buying rates of the bazar vary according to the demand for money from Re. 0-2-0 per cent. premium to Re. 0-3-0 per cent. discount.

(b) G. C. Notes in halves sent through Post Office by their agents or branch offices.

(c) Demand Drafts or T. Ts. purchased from the Calcutta Office of the Imperial Bank of India by their agents or branch offices.

(d) Loans obtained from bazar by drawing currency bills on selves. Rates of discount for such transactions vary in the tight seasons from 6 to 18 per cent. taking into consideration the means and standing of the borrowers.

(e) Discounting currency bills on selves at the Imperial Bank of India through the intervention of some other respectable merchant.

The agents of the foreign traders are generally financed by no. (b) and (c) methods.

4. When sent to Calcutta agents or to the merchants of some other place a demand *hundi* is drawn on the consignee supported by the railway-receipt which is discounted either at the Bank or to some other importing firm who may require it.

5. The stocks held are pledged if necessary to money-lenders or banks with a view to purchase further crops, which crops are again pledged. 75 per cent. to 90 per cent. of the current market price of the crops are advanced by the money-lenders and bankers charging interest at rates ranging from 7½ per cent. to 12 per cent. The cash credit system thus enables a merchant with a capital of Rs. 25,000 to purchase and hold crops to the value of Rs. 1,00,000 or more.

Forming pools or Co-operative efforts :—

There are very little possibilities of such an organisation as the agriculturists are poor and uneducated. Their indebtedness to *mahajans* always compels them to sell the produce immediately after the harvest. Those who are educated and have means of their own hold their own stocks for sale at some future date at a reasonable price but they are not in favour of such an organisation as their personal interest will suffer thereby.

The existing credit facilities for financing of products during marketing have already been narrated and are sufficient to cope with

the requirements of the district. There is practically no foreign traders in the district, the business is confined to internal trade only.

The existing facilities for internal remittance are :—

(1) By drafts and T. Ts. purchased from local branch of the Imperial Bank of India.

(2) Through Post Office by money order or under insured packet.

(3) By demand *hundis* purchased from exporters when money is to be remitted to Calcutta.

There appears to be no defect in the existing systems of remitting money.

Negotiable Instruments.—It is above all doubt that the traders will be benefited if the stamp duty on bills is reduced and furthermore if altogether abolished but by doing so there appears no scope for promoting the extensive use of bills. A prudent merchant will always endeavour to limit his drawings only to the extent absolutely necessary to finance his business and no more. Sample of the only two typical forms of *hundis* (one demand and one usance) in circulation at Darbhanga is given below. Local traders generally draw "Order" instruments, as, a "Bearer" *hundi* is not preferred by the person in whose favour it is drawn, for fear of being deprived of the money in case of its being stolen. Local shroffs also hesitate in discounting a "Bearer" *hundi*. The commercial practice of the place is that the "Holder in due course", if unknown the drawees or be an insignificant person, must, to obtain payment of a *hundi* at its maturity, present the same through his bankers or a person or firm having good credit in the bazar.

(1)

Sd—..... To.....
accept and pay.

From.....

We have drawn on you a *hundi* for Rs. in words Rs.
double of rupees in favour of of
payable on demand after (date), Please pay to a reliable
man in accordance to the prevailing customs of *hundis*. Dated this
.....the.....Sd.....

(2)

To.....

From.....

We have drawn on you a *hundi* for Rs. in words
rupees double of rupees in favour of
of payable after days from (date)

Please pay to him or to his order to a reliable man in accordance to the prevailing custom of *hundis*. Dated this the.....Sd.....

Major portion of the *hundis* emanating from the locality are discounted and retained by middlemen, merchants and commission agents.

The only instrument of ownership of goods and produce accepted in this district for granting loans at the time of marketing is " railway receipt ". There is no difficulty in discounting at a lowest possible rate *hundis* supported by railway receipts at the Imperial Bank of India provided that such bills are endorsed by reliable persons.

III.—Value of land per bigha (about an acre) in this district if purchased by private negotiation :—

	Rs.
Lands producing both <i>kharif</i> and <i>rabi</i> crops	200—500
Lands producing only paddy	100—200
„ „ wheat, maize and cane	200—600
„ „ chillies and tobacco	500—1,000

In case of default in payment of Government Revenue the land is sold to the highest bidder without any consideration of the actual value of the land but such considerations are made in the event of sales by a civil court in execution of decrees. There the sales are postponed for about a week at the request of the parties interested therein and the court tries to get the best value of the properties.

IV.—There is no legal impediment to mortgage of lands and agricultural holdings in the province.

The Co-operative Banks also provide for long-term credits. Their methods of raising funds are :—

- (1) Capital subscribed by members.
- (2) By accepting long-term fixed deposits paying interest at rates from 6 to 6½ per cent.
- (3) By accepting Savings Bank Deposits paying interest at 4 per cent.
- (4) By obtaining loans from the Provincial Co-operative Bank at a fixed rate of interest (7 per cent.).

The funds at their disposal are advanced to agriculturists for application to productive purposes in connection with their business charging 12½ per cent. to 15½ per cent. interest through their affiliated societies in the villages on the joint unlimited liability of the members of the society. The members of the societies are required to surrender the title-deeds of their properties to the District Central Bank in the way of registered mortgage and in their turn take registered mortgage deed of the properties of the borrowers (cultivators). The societies finance also to a very limited extent to agriculturists for purposes (marriage, *sradh*, etc.) other than cultivation.

7.—The cultivators' debts are incurred for all the purposes mentioned in the Questionnaire and those debts are largely due to professional money-lenders. Rates of interest charged and methods used for enforcing payment (by instituting suits if necessary but generally by taking the produce or cash money in payment of debts) have already been stated.

Interests are calculated at the end of the year and a fresh D. P. Note for the balance together with interest due is taken.

VI.—Only rice-milling, *gur*-manufacturing and hand-spinning and weaving exist in this district.

There are small concerns managed by the agriculturists themselves. It is difficult to ascertain the number of these industries.

VII.—All the Co-operative Banks transfer funds free of charge to and from the Central Co-operative Bank, Limited, Patna, through the Imperial Bank of India while the Laheriasarai Central Co-operative Bank, Limited, only keep their surplus funds in current account with the Imperial Bank of India.

The deposits offered by the public for fixed periods to Co-operative Banks are in excess to their requirements.

The Indigenous Bankers (or more properly merchants) discount bills, open current and cash credit accounts with the Imperial Bank of India and transfer funds, collect bills drawn on other places through that institution.

There is no joint stock bank in the district and so there is no competition between Joint Stock Banks and Co-operative Banks.

II. INDIGENOUS BANKING.

The Indigenous Bankers of the district are chiefly the merchants and banking (or more proper to say money-lending) is their secondary business. Zamindars and village money-lenders also come under this category.

Their functions are :—

1. To accept deposits (to a very limited extent) without interest or on nominal interest. No cheque is drawn on such bankers but sometimes, though not often) a " Hatchita " (a form of Pass Book) is issued by the Banker in which all deposits or withdrawals are entered.
2. To advance against produce or imported goods.
3. To discount *hundis* or Promissory Notes.

Such *hundis* are generally held by the Banker himself or re-discounted with some other Banker. The maximum currency of such *hundis* and Promissory notes is one year. Discount rates vary from 4 to 12 per cent. according to the condition of the money market and currency of the *hundi*.

4. To advance against Demand Promissory notes.

5. To advance against mortgage of house or other landed properties.

6. To advance against silver ornaments charging interest at rates from 12 to 18½ per cent.

2. Major portion of the trade and industry and about ¾ths of the agriculturists are financed by these Indigenous Bankers.

3. There is no Joint Stock Bank in the district.

4. Sample Forms of *hundis* in vogue are given on page 49.

The average sale of *hundi*-Papers per annum in the district is Rs. 1,400. Roughly, *hundis* to the extent of Rs. 15,00,000 are discounted annually for financing trade, agriculture and industries.

5. Cash credits granted against pledge of produce and merchandise.

1. Interest is charged from 9 to 12 per cent. with yearly rests.

2. 75/90 per cent. of the current market value of the goods pledged, is advanced.

3. No document is executed by the borrower.

4. Goods stored either in borrower's own godown which is in the possession of the lenders or in the lenders' godown. In the latter case godown rent is realized from the borrowers in addition to the amount of interest.

Cash credits against mortgage of landed property :—

Landed properties are mortgaged and registered. It is stated on the deeds that the mortgagor will be allowed credit to a limited extent and interest at 9 per cent. to 12 per cent. (as may be settled) will be charged on the outstanding balance of the account. An account is opened in the books of the creditor in which all receipts and payments are recorded. No other documents are taken and the account as written in the books of the creditor is accepted by the court as correct.

The indigenous bankers provide themselves with funds by re-discounting the bills with other bankers if the rate of such re-discount be lower than the rate which the bill was originally discounted, but ordinarily they prefer to restrict their business to the limit of their own capital. Sometimes, if available they accept deposits from private parties allowing interest from 4 to 6 per cent.

6. The rates of interest paid by the agriculturists have already been stated.

The rates of interest charged from the agriculturists may be brought down if the legislature fix a maximum rate and impose penalty to those charging a higher rate. But this will not help the agriculturists much as the borrowers in urgent need will not hesitate to execute demand promissory notes for amounts much more than what they have actually received. It appears to me that money saved on account of the reduction of the rate of interest will be spent frivolously and not towards the agricultural improvement. No improvement in this direction seems probable unless the mass are educated.

7. It appears that there is no prejudice in the locality against the indigenous bankers and they are sufficiently protected by law. Their dealings with their clients are good as is evident from the fact that people prefer to transact business with them instead of going to co-operative societies where funds are available at less interest.

10. It is reported by the local money-lenders that the net average yield of their investment after allowing for all expenses, losses, etc., is from 7 to 10 per cent. as a fair proportion of the loans granted by them without adequate security is not recovered.

11. The indigenous bankers are obliged at times to refuse business both for insufficient funds at their disposal and for the unacceptable nature of the security.

12. Yes, the money at the disposal of the indigenous bankers does not find employment throughout the year. For a short period (say for three months in a year, viz., September to November) the funds at their disposal are sent elsewhere outside the district chiefly to Calcutta for employment.

III. INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

1. The Imperial Bank of India, District Central Co-operative Banks and post offices are the existing institutions for encouraging savings and investment habits and the public are provided with full facilities for the investment of their savings.

2. Yes, Savings Bank afford all possible facilities. Generally pleaders, mukhtears, clerks and other court employees keep their surplus money in Savings Bank.

3. Imperial Bank of India gives every possible facility to the public for purchasing Government and other securities. Anyone desirous of purchasing securities can obtain the same at the current market rate by depositing money at the Imperial Bank. Sales are also effected by the same institution after taking identification of the holders.

The zamindars and middle class people chiefly invest their savings in landed property. It is reported that some are in the habit of hoarding or keeping idle money but the latter habit is gradually disappearing.

The farmers generally cannot save anything. In prosperous years their savings are utilized in clearing their previous debts.

4. The merchants, zamindars and pleaders who have got current account use cheques. With the abolition of the stamp duty the habit of making payments by cheques is increasing.

Mr. C. A. MACLEAN, M.B.E., M.C., M.A., B.Sc., Deputy Director of Agriculture, Chota Nagpur Range, Kanke (Ranchi.)

Replies to the Questionnaire.

Question 1.—The word “ agriculturist ” covers all classes of people who produce crops from the generally affluent *gaontias* of Sanibalpur

to the cultivator of a tiny patch who is always in need of money. Presumably, however, the term here refers to the great bulk of agriculturists who with the assistance of their families can cultivate the land they possess. As regards capital generally, people in this part emigrate for shorter or longer periods to the cities and to the tea-gardens of Assam and the popularity of the annual exodus would indicate that it is attended with tolerable pecuniary advantage: such surplus grain as exists is sold in the local *hāts* to provide a little extra cash.

(a) The expenses of actual cultivation are strictly limited provided the bullocks are fit to work. Families assist each other in the work of cultivation and harvest, and the seed for sowing is kept from the previous harvest if at all possible. Though of course he may not have to borrow grain for seed the cultivator may still be obliged to borrow grain for food. This latter case comes under (c) below.

(b) For capital and permanent improvements he borrows from Government, from the Co-operative Bank (if he is a society member) or from the money-lender. Sometimes sons or relatives are given as *dhangars* or whole-time servants in return for an advance of cash: the money in this case is repaid by service.

(c) For special needs he relies on the *mahajan* and money-lender.

Rates of interest vary from $6\frac{1}{2}$ per cent. on Government *takavi* loans to 100 per cent. on loans paid in kind. Loans may be taken on the security of standing crops, ornaments and movable and immovable property. It is a common system to borrow grain on the *sawai* system, i.e., for each measure advanced, $1\frac{1}{4}$ measures are recovered at harvest and as the loan is usually for six months this is equivalent to a rate of 50 per cent.: frequently $1\frac{1}{2}$ units, equivalent to 100 per cent. is demanded and obtained. On ornaments the rate is $\frac{1}{2}$ to one anna per rupee per month: a loan up to two-thirds of the value of the ornament is advanced. On mortgage of land the rate is about 6 pies to 1 anna per rupee per month.

The period of the loan also varies from six months in the case of grain to 10 to 12 years in the case of land. Small sums may be advanced on a hand-note but the period of the loan is limited to 3 years: a loan with ornaments as security is on a very short basis.

From what I can gather practically the whole of the money-lending business in this range is in the hands of the *mahajans* and professional money-lenders. Naturally much importance is attached to the work done by co-operative banks but it is almost certainly overrated.

The great defect in the existing state of things is that the amount of money available is strictly limited. In his book "The Economic Life of a Bengal District" (page 103) Jack brings out this point most vividly. "In the scarcity of 1906", he writes, "the money-lender was sucked so dry that no money was available for loan to cultivators with even the best security." The money-lender is generally portrayed as a rather ghoulish character, but if the rate of interest he

charges is high, it is on account of the competition amongst the borrowers themselves for what he has to offer. Even those who inveigh against him take very good care to invest their savings where they get the best and the surest return possible. This is all the money-lender does, though on a less refined plan.

I cannot suggest any remedies except that continuous encouragement be extended to the co-operative movement. Its extension must and will be gradual: for the present it does not and cannot offer a complete solution of the problem of rural indebtedness. The facile remedy frequently offered that Government should open banks in each and every large village is made only by those who have neither considered the extent of the cultivators' debt nor the manner in which Government is to obtain the money.

There is no co-ordination amongst the various credit agencies—rather the reverse.

I. *Question 2.*—The staple crop in this range is paddy and whatever is sold is disposed of in the local market and generally to the *mahajan* who is the last link in the chain between the producer and the world without. The method has decided disadvantages: there is never any question of keeping the grain till the market is at its highest. The cultivator sells at the end of the harvest when he must have ready money not only for his rent or *kist* but also for various ceremonies. There is a glut on the market which reacts to the disadvantage of the sellers and to the enormous advantage of the buyer.

Pools no doubt can be formed. The agricultural and co-operative departments have combined together in the Punjab to enable the cultivator to sell his cotton crop to the best advantage. In Guntur in Madras tobacco is being sold co-operatively. But whatever commodity is handled there is need for a tremendous amount of business acumen and if this is lacking the effort is foredoomed to failure. I consider too that before pools are formed a great deal of detailed information for each centre would have to be accumulated beforehand. The movement of the commodity in question would require very careful investigation and in connection with this movement the question of transport would also have to be studied. The *mahajan's* transport—be it bullocks, ponies or carts—is loaded in both directions: it goes here, there and everywhere pursuing an intricate course that the co-operative department would find it hard to emulate. Co-operative sale where the individual surpluses are small is not the simple business which the protagonists of the idea imagine it to be. It will be noted that the instances of co-operative sale I have given are in the case of non-food crops where the entire yield is for disposal and where the value of the crop is relatively high, maund for maund. This simplifies not only the collection but also the despatch towards the world's market.

The adherents of the pool idea imagine that because grain is dearer before sowing than it is at harvest all that is necessary is a pukka-built grain *gola* in every *hât* where grain can be accumulated in December and January and sold at a profit in May and June. If

the problem were as simple as this all that would be required would be an advance for the building which would soon be repaid from profits but I have given indications above that the problem is not so simple. There is also the further consideration—the *mahajans* would break the pool. Last year 1928-29 the paddy crop in Chota Nagpur was in imminent danger: in anticipation of failure paddy was imported in large quantities with the result that grain is selling cheaper in 1928-29 than in 1927-28 when such a marked threat to the paddy crop did not exist.

If I have indicated the dangers in the pool idea, it is not that I disparage the scheme. I should very much like to see it tried so that the cultivator could get a better return for his labour than he does at present.

I. Question 5.—As far as I know no extensive economic enquiries have been conducted in this province though the value of such enquiries is undoubted. Darling and Calvert in the Punjab, Keatings and Mann in Bombay and Jack in Bengal have shown the way. Jack's work in Faridpur seems to have been of a truly colossal nature but in Bihar and Orissa such an economic survey should be confined to a limited number of typical villages. Without such a survey all estimates are in the nature of wild guesses.

Such a survey should be guided and controlled by an administrator of wide experience with the collaboration of the professors of economics in the province. The actual investigation should be done by recruits to the civil service who have had some experience in settlement work and who had taken economics in their course at the university. In rural areas officers brought up in such surroundings should be selected for the work.

I. Question 6.—In Chota Nagpur the chief subsidiary industries that I know of are weaving and vegetable growing carried on by Jolahas and Koiris respectively. Both dispose of what they have to sell direct to the purchaser so that in this respect little can be done for them except that a co-operative sale organization might save them the tremendous amount of labour involved in getting their goods to market. A whole battalion of Pithoria Koiris waste two days each week carrying their vegetables to Ranchi.

I do not consider that any so-called enterprise encouraged by an external agency will raise the standard of living of the farmer. If the desire for a higher standard of living develops, then the farmer will find his own enterprises: if the desire does not exist, however, then the development will be a slow and costly business and will have to be undertaken for each succeeding generation in turn. My own opinion is that the desire for a higher standard of living must be preceded by the education of the masses—a colossal problem. Without education, people will not appreciate the objects of such enterprises.

II. Question 6.—The rates of interest paid to the indigenous banker are given in I, question 1. These rates are the result of the limited amount of money available for loan and are the result of competition

amongst the borrowers. The only way to bring the rates down is to make more money available for those in need of it but how to attract the money I do not know. My hopes at present are centred on the co-operative department.

Wherever rates of interest have been reduced borrowers have shown their appreciation of the fact by plunging still further into debt. If the borrowing were for productive purposes the result would be all to the good : but if the borrowing were for the maintenance of the man's *izzat*—to enable him to make a bigger show at the next function—the result would be unfortunate. Here again of course the tutelary functions of the Co-operative Department would prevent abuse of loans.

Babu LALJI SINGH, of Colgong, Bhagalpur, (Translation of a Hindi Memorandum.

1. The agriculturists obtain credit for agricultural purposes or for paying the land revenue or for making permanent improvements.

The rate of interest varies from twelve annas to two rupees per cent. per month. The period for which loans are taken is generally one year or more. But these are never repaid in time.

Occupancy holdings or zamindari rights are offered as securities for loans. It is rare that standing crops are offered as security.

Besides the above, many are given credit on hand-notes or by entering into the account book (*bahi-khata*) without demanding any security.

The Government or the co-operative banks give loans on the promise of repayment in instalments at fixed times at a lower rate of interest than the *mahajans* who charge a higher rate of interest. In the latter case there is no promise of repayment at fixed times. It all depends on the will of the *mahajans*.

The defect of the new system of giving credit is that the Government and the co-operative banks demand securities from others besides the borrowers and further instalments are demanded at fixed periods with great severity, with the consequence that at times the goods of the security-holders are also put to auction. But only those who borrow from *mahajans* have to suffer. Others do not suffer for them.

2. In this province some cultivators bring their crop to *golas* (wholesale shops) and themselves sell it. Buyers generally purchase the crop in the field or at the house of the cultivators. Traders from distant places purchase from the *golas*. Those who have their own capital employ it in purchasing the crop. Others who have not their own capital, purchase it either in partnership with or by taking loans from *mahajans*.

The *mahajans* in partnership get a share varying from 25 per cent. to 50 per cent. in the profit. About 12 per cent. per annum

is charged from those who borrow for this purpose. Only *darsani hundis* (sight bills) are current in this province. The time bills are current to a very small scale.

SAMPLE (*Hundi*).

Sidh Shree Calcutta Shubh asthane bhai..... jog likhi amukh asthane sai amukh beakti ka jai gopal banchna oparanch hundi kita aik app ke upper kari rupea ekhajar Rs. 1,000. Anke nomimen rupea panch sao ka duna pura ehan rakha amukh beakti ke pass miti Kartik Sudi panch seti mahuchen Ram sah jog rupea thikane laga dena miti Kartik Sudi 5 Sambat 1986.

Signature.

3. The following is the price of land in this province :—

(A) Very poor.

(B) Very poor. Varying from Rs. 80 to Rs. 300 per acre.

4. If the agricultural land be mortgaged, the law courts reduce the rate of interest in decreeing the suits.

In this province there is the Benares Bank.

5. The estimate of indebtedness in this province can be obtained through the village panches (headmen).

Babu R. K. L. N. SINGH (Translation of a Hindi Memorandum).

For agricultural and other industrial purposes the following are the sources of credit :—

(A) The village *mahajans* whose financial condition is good.

(B) *Kist kothi* (banking house) and zamindars.

(C) Co-operative banks.

1. The money which is loaned by zamindars is given at comparatively cheaper rates of interest than other institutions mentioned above. The zamindars generally charge at 12 per cent. per annum. The money is advanced either on handnotes or by entering into the account book (*bahi-khata*).

2. *Mahajans* and *kist kothi* lend at the rate varying from 12 per cent. to 15 per cent. per annum, but there are many advance on handnotes or mortgage.

3. The co-operative banks charge at rates varying from 12 per cent. to 15 per cent. per annum but there are many difficulties connected with it :—

(A) Those whose financial condition is good do not co-operate with it.

(B) The borrower does not get sufficient credit according to his needs and demands.

(C) The other members as well are responsible for the loans.

(D) Besides the troubles and expenses involved in going to and coming from the headquarters incurred by borrowers, they have, it is so reported, to pay illegal gratifications.

THE NEEDS FOR BORROWING.

(A) For meeting the expenses of Civil and Criminal cases due to quarrel among the villagers.

(B) For meeting the ordinary expenses of food and clothing in cases of flood and drought.

(C) For purchasing occupancy or zamindari rights in villages.

(D) For marriage and funeral ceremonies.

4. The borrowers pay off these loans when there is good crop, otherwise the creditors have to take recourse to law courts. The borrowers are in the habit of litigation with the *mahajans* which puts the latter to great loss and expenses in litigation.

5. In my opinion the remedy is that money should be advanced to zamindars for purposes of lending to cultivators at low rates, namely 6 per cent. or 7 per cent. per annum, and they should be asked not to charge more than 9 per cent. from the cultivators. The cultivators will derive great benefit from such a scheme for they will be saved from paying *salami* and incurring other incidental expenses. The zamindars should in such cases be given the certificate power in order to protect them from loss and expenses of litigation.

CREDIT FACILITIES FOR ZAMINDARS.

The zamindars have to face the greatest difficulty in obtaining credit. The Imperial or Co-operative or any other bank charge very high rate of interests from zamindars. This has been the cause of ruin of a considerable number of respectable zamindars. Generally credit is obtained at rates varying between 12 per cent. to 18 per cent. per annum besides *salami*, stamp and other incidental expenses incurred in coming and going. The terms of credit are generally very hard and money is left to accumulate. When the principal and its interest runs to a very high figure, the demand is made with the consequent sale of the estate (zamindari) and the ruin of zamindars. Therefore, the Imperial Bank should be asked to advance to zamindars at low rates of interest or the Government should itself establish land mortgage banks in every district with a capital of 15 to 20 lakhs. In the beginning the Government should take on itself the risk of giving loans on the mortgage of land.

THE IMPERIAL BANK.

The Imperial Bank is of no benefit either to zamindars or *raiya*s (tenants) for it does not advance to either of them. Only few big zamindars deposit in the Imperial Bank. The public has also to face great inconvenience in depositing Government *hundis* and in obtaining changes for notes and coins from it.

The public suffers great loss from the circulation of currency notes. They have no remedy against forged notes or notes bearing wrong number or notes which are spoiled.

CO-OPERATIVE BANKS.

The general public deposits its savings in co-operative banks because they get a higher rate of interest. They have confidence in them as well as the co-operative banks have the co-operation and help of the Government. The elected directors are generally not good and therefore the working of the co-operative societies cannot be described as efficient. The relations of these directors and honorary officers get loans with great ease while the general public has to pay *salami* and to incur other expenses. If Government officers and managers be appointed for these men, all the evils will be remedied and the public will have greater confidence in them.

Babu RAJENDRA PRASAD. (Memorandum on khadi production in Bihar).

Practically the entire capital employed in *khadi* work in Bihar by the Bihar Branch of the All India Spinners' Association is supplied out of the central fund of the Association. The effective capital as per our last balance sheet for the year ending 30th September 1929 is Rs. 1,86,774 out of which only Rs. 3,984 represent deposits from weavers. With this capital we have to finance three classes of centres, viz., (a) spinning centres, (b) weaving centres, (c) sales depôts. Besides these we have a dyeing and printing department and the central stores where the cloth is washed and finished and from which the goods are distributed to the various sales depôts. We have also to maintain a cotton department for the purchase and stocking of cotton from which the various spinning centres are fed. Last year we had 15 spinning centres and 9 weaving centres. Of the weaving centres two were of an experimental nature and are closed and three have been taken over by independent persons or organisations assisted and recognised by the A.I.S.A. The weaving centres also serve as spinning centres.

At the spinning centres we only purchase or exchange yarn for cotton. In the district of Darbhanga we have to supply cotton to the spinners who sometimes purchase it from us for cash but in most cases exchange it for the yarn they supply. They get $1\frac{1}{2}$ seers to $2\frac{1}{2}$ seers of cotton (ginned) for 1 seer of yarn according to the quality of the yarn which varies from 6 to 10 counts. For the finer counts we have to pay in cash, and it is spinners of the finer counts who purchase their cotton also in cash from us. In the districts of Muzaffarpur and Saran the spinners have their own cotton and we have to purchase their yarn for cash. In most cases we do not have to supply cotton. In many cases we have simply to go to a village market to purchase the yarn exposed for sale. This is particularly the case in Saran. In Bhagalpur, like Darbhanga we have to supply cotton and either exchange or purchase

yarn from spinners, while in the districts of Patna and Gaya we have to supply cotton and purchase the yarn. On account of the variety of systems followed at different centres and the difficulty of distinguishing between the price of cotton which varies greatly and wastage on the one hand and the wages for spinning on the other, it is not possible for us to obtain accurate figures for wages paid for spinning. But a fair idea can be formed by striking an average.

In the weaving centres which also serve as spinning centres we collect the yarn from the spinning centres, distribute it among weavers, and take the cloth woven paying them wages for the weaving. The weaving wages vary from 1 anna 6 pies per yard to 3 annas per yard according to the width and quality of the cloth. In 1928-29 we paid as wages for weaving Rs. 47,813.

The cloth produced at the production centres is washed and finished mostly at Muzaffarpur and some of it is also dyed and printed by our dyeing and printing department. We paid as wages for washing Rs. 6,333 and the expenses of the dyeing department came to Rs. 10,556. Some of the cloth has also to be sewn into shirts, caps, etc., and the tailoring charges paid came to Rs. 1,114.

The total production of *khadi* by the Bihar Branch of the A.I.S.A. and some independent organisations which started work in the latter part of 1928-29 under the supervision of the A.I.S.A. was Rs. 2,20,164—out of which only Rs. 6,000 was by the independent organisations, the remaining Rs. 2,14,000 being by the Branch itself. The largest production centre is Madhubani which produced *khadi* worth Rs. 1,58,725 last year. These figures represent the value of *khadi* as it is at the weaving centres and not the price at which it is sold. Some further cost has to be added in the shape of expenses in connection with washing, dyeing, etc., and the cost of transit.

At the sales depôts the finished goods are sold to customers. We had 17 such sale depôts in the province besides a number of sub-agencies and hawkers. Some sale takes place also at the various spinning and weaving centres and at exhibitions. But the bulk of the sales is by the depôts. In 1928-29 we sold in all *khadi* worth Rs. 3,17,081. This is more than the production figure shown above on account of two reasons, viz., first we sold also some *khadi* imported from other provinces, and secondly, the above production figures do not include the cost of finishing Rs. 19,502 and the cost of transit Rs. 6,908.

Our capital was distributed roughly among our various departments as follows :—

			Rs.
(a) Spinning centres	...	...	15,000
(b) Weaving centres	...	...	35,000
(c) Dyeing department	...	...	6,000
(d) Central stores	...	...	65,000
(e) Sales depôts	...	...	39,000
(f) Buildings, furniture and dead-stock, etc.			12,000

These are, however, rough figures inasmuch as there is constant shifting of this investment from one department to another according to the needs and exigencies of the season and according as sales and production are brisk or otherwise.

Thus with a capital investment of about Rs. 1 lakh and 86 thousands we produced *khadi* of the cost price of Rs. 1,40,000 and sold *khadi* valued at Rs. 3 lakhs 17 thousands. We could show better turn over, if we could concentrate production and sales in fewer centres. But we are unable to do that as one of the main objects of the A.I.S.A. is to serve as a propaganda agency for *khadi* and to do pioneering work in the revival and resuscitation of spinning and weaving. While we try to make each centre self-supporting it is not possible to do so as some new centres are opened every year to serve as experimental centres. Out of the fifteen spinning centres three were run at heavy losses, and of the sales depôts no less than eight sustained losses. We have besides to maintain a large establishment for supervising and co-ordinating the work of all the branches which are in all no less than 43 including the central stores. Taking the entire work of the Bilar Branch we had a small profit of Rs. 1,656 which has become a part of the capital this year.

The work bids fair to progress quickly now. The spade work has been done. The A.I.S.A. has had to incur losses in the beginning, as it was entirely a new work. Its workers were not trained either in the technique of spinning and weaving or the business side of organising it. We have now a fairly well-equipped staff for the work in hand and the entire organisation has been put more or less on a business footing. The quality of *khadi* has improved considerably and the prices as compared with those in the earlier years have gone down. The fall in prices is considerable if we consider that apart from the actual reduction per yard the quality of cloth now supplied is much better than it used to be in the beginning. There is room, however, for immense improvement in all directions and it needs people with brains and business training to make *khadi* a perfectly marketable commodity even without the lever of sentiment on which it has to depend at present.

The following comparative figures of production and sale for the first three months of our financial year (October 1 to September 30), viz., October 1928 to December 1928 and the corresponding months of 1929 will show how the work has increased within a year with the same capital and practically the same staff :—

	Production.	Sale.
October to December 1928.	39,476	74,693
Ditto 1929.	82,687	106,356

(The figures for sales in December 1929 are not complete as they had not been received from all the depôts.)

Some business men are now taking up production and sale of *khadi* and we have transferred two of our sale depôts and four of our produc-

tion centres to independent and recognised organisations. Some of our capital has been accordingly released and invested in opening fresh centres in the current year.

Our capital ordinarily suffices for the work in hand. But during the rainy season our production increases while the sales go down. We have occasionally to get accommodation from our Banks in the form of overdrafts which we can easily get on the security of our stocks. Any such overdrafts are paid up during the cold weather when the sales again become brisk.

The two needs of *khadi* are capital and trained workers with heart in the work. If these are available, we can look forward with confidence to the future.

Simple Questionnaire for Village Enquiries.

Government all over India are trying to find out how the *raiya*ts in the mufassal manage to get money for expenses of cultivation, for improvements and other needs, how they sell their produce, what they do with their savings, and how much they owe. The object is to try to improve the *raiya*ts' condition in every way possible. We are asking some gentlemen to help us to make these enquiries and we hope you will be ready to answer the questions of the gentleman, who sends you this paper, when he comes to your village. We do not want you to write anything down yourself but only to be ready to answer questions, and to get your fellow-*raiya*ts to answer them too. Some spare copies are being sent so that you can give them to your friends, and then you can talk the matter over.

BORROWING.

1. Do you or the other *raiya*ts of your village have to borrow money in ordinary years for the expenses of cultivation? If some *raiya*ts have to borrow and others do not, why is this?

2. From whom is money borrowed for this purpose? Is it borrowed from a money-lender living at a distance, or from a Co-operative Society? If it is borrowed from a village money-lender, is he just one of the richer *raiya*ts or is he of some particular caste?

3. What rate of interest is paid for such loans, and when are these loans taken and when paid back? Is any security given? Are there any other conditions? Is any document written besides an entry in the money-lender's books?

4. When any *raiya*t in your village wants to make an improvement on his holding such as digging a well, or turning upland into paddy land, does he borrow money? If so, from whom does he borrow? What rate of interest does he pay? How long is he allowed to pay the loan back? Does he give any security? What sort of document does he execute?

5. Do you or the other *raiylats* of your village usually have to borrow money to meet other needs; for example to pay your rent, to feed yourselves when the crop fails, for marriage or funeral expenses, for replacing lost cattle? If so, from whom do you borrow and on what terms? Are such loans usually taken for a definite number of years?

6. Can you give any idea of how much money is borrowed in a year for each of these three purposes, i.e., for the annual expenses of cultivation, for improvements, and for special needs, by the *raiylats* of your village? Do you think that if money could be borrowed more easily and cheaply for the first and second purposes better crops could be raised?

7. Have you ever taken a *takavi* loan? If so, did you have anything to complain about? Do you know that you can borrow from Government for making improvements? If so, can you say why very few people take such loans?

A DEBT-CLEARING BANK.

8. Do you think it would be a good thing to start a bank which would advance to *raiylats* the amount needed to clear off their debts? Such a bank would require a mortgage on the *raiylats*' holding and expect fairly regular payment of interest. The interest would probably be lower than what you pay to your *mahajans*, but if you did not pay it regularly your holding might be sold up. Such a bank might perhaps also lend out money for improvements.

TOTAL INDEBTEDNESS.

9. Can you give us a statement of how much the *raiylats* of your village owe? We do not want any names and will not let anybody else see the statement, but only use the totals. We should like to have it made out like this. Please fill up the form for every household in the village, if you can, *even those who have no debts*. There will probably be some rich men and some very poor men who are not in debt at all.

Debts in village.....Thana.....District.....

Serial no.	Debt due to Government (<i>takavi</i>).	Debt due to the village <i>mahajan</i> .	Debt due to a co-operative society.	Debt due to a buyer of produce.	Debt due to other creditors.	Remarks.
1	Rs.	Rs.	Rs.	Rs.	Rs.	
2	Rs.	Rs.	Rs.	Rs.	Rs.	
3	Rs.	Rs.	Rs.	Rs.	Rs.	

MARKETING.

10. To whom do you and the other *raiyats* of your village sell your produce? Do you usually sell most of it very soon after harvest? If you want to keep the produce till you can get a better price, have you any place to store it? Have you ever thought of getting a number of *raiyats* together to build a storing place, so as to be able to wait for a better price? Do you get fair treatment from the purchaser of your produce? If you do not, can you find another purchaser or are you obliged, by reason of your owing money to him, to sell to a particular purchaser? Do you usually take advance from any grain merchant before the harvest? Do you take your produce yourself to the market or does your purchaser collect it?

CHEAPER CREDIT.

11. If you *raiyats* could borrow money at cheaper rates, what would be the result? Would you borrow more money? If so, would you spend it on improvement such as wells, or on buying manures that would give you better crops? Or would most of you spend more on marriages and *shradhas*? Have you any other idea about the result of cheaper credit?

USE OF SAVINGS.

12. What do you and the other *raiyats* of your village do with your savings? Do you bury the rupees, or buy ornaments with them, or put them in your Co-operative Society, or in the Post Office Savings Bank, or buy Postal Cash Certificates, or buy more land, or use your savings in any other way? Do you know all about the Post Office Savings Bank and Postal Cash Certificates? Are you satisfied with the treatment you get from the Post Office, if you have put your savings there?

Instructions to the investigator.

The set of questions sent herewith is intended to collect information for the Banking Enquiry from the agriculturists, particularly the actual cultivators. The questions are based on Part I, Sections 1, 2, 4, and 5 and Part III, Sections 1, 2, and 3, of the questionnaire, of which a copy is enclosed but have been put into simpler language and expanded.

The best thing will be to send five or six copies to the principal man in the village, which you are investigating, some little time before you go yourself, so that he and the other most intelligent men can talk the matter over and be ready with answers when you arrive. You will see that these men are not being asked to write down their replies. We want you to do that yourself in the "answer form" attached.

Question 9 is the most difficult one for getting good answers but is the one for which we most want your help. Please try to work through the households of the whole village, including labourers (who probably will not have any considerable debts). If these are left out

and the indebtedness of the province calculated on the average of the ordinary *raiyats*, it will obviously be put too high.

We should like to have your answers to the following questions if you can get information during your visit to the village :—

Answers.

1. What proportion of the debt in the village was incurred for
 - (a) repayment of earlier debts,
 - (b) marriage and other social occasions,
 - (c) famine and other kinds of distress,
 - (d) payment of land revenue or rent,
 - (e) purchase of seeds and manure,
 - (f) purchase of improved implements,
 - (g) sinking of wells and other improvements,
 - (h) non-payment of interest on due dates?
2. What rates of interest are charged by the various creditors and how is it calculated? How is payment of the debt enforced?
3. Are the *raiyati* holdings of this village passing out of the hands of the actual cultivators who are kept on as under-*raiyats*? What amount of the total land has so passed in the last 20 years?
4. If the land is so passing, is cultivation becoming less efficient?
5. How much of the total debt in the village is secured by registered mortgage on the land?

We should be very glad to have your report in as soon as you can send it, and in any case before the beginning of December. If you can manage to survey more than one village, we shall be very glad to have two or more reports.

VILLAGE TUNGAON.

District Ranchi.

By Maulavi S. M. MUJTABA, Munsif and Assistant Settlement Officer, Ranchi Settlement.

INTRODUCTION.

I have made detailed enquiries regarding the debts contracted by *raiyyats* (including *Bhuinhars*) of village Tungaon, thana Karra, no. 65, district Ranchi, as directed by the Banking Enquiry Committee. The debts of landlords have not been taken into account at all. The rate of *zarpeshgi* has been calculated by adopting 3rd class upland *tânṛ* as the unit, and the relative value of land has been taken as mentioned in Mr. Reid's Final Report of Ranchi Settlement. The figures are as follows :—

Class of land.	Tanr. 3	Tanr. 2	Tanr. 1	Don. 3	Don. 2	Don. 1
1	2	3	4	5	6	7
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Rate of <i>zarpeshgi</i> per acre.	9 0 6	36 2 0	72 4 0	108 6 0	144 8 0	188 10 0
Unit ..	1	4	8	12	16	20

Taking 13 per cent. as the approximate income on the *zarpeshgi* money, as mentioned in the body of report, the value of various classes of *raiyyati* lands per acre in the village under enquiry, on 20 years' purchase (the standard rate), will be as follows :—

Class of land.	Tanr. 3	Tanr. 2	Tanr. 1	Don. 3	Don. 2	Don. 1
1	2	3	4	5	6	7
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Value of land (raiyyat's interest only).	23 3 8	92 14 8	185 13 4	278 12 0	371 10 8	463 12 0

1. *Extent of borrowing for cultivation expenses.*—The average *raiya*t depends on borrowing every year for the expenses of cultivation. Such of the *raiya*ts as have a comparatively lesser number of family members to maintain, with a larger area of land, are a little better off. Money is borrowed for the purchase of oxen and buffaloes for the plough. A poor *raiya*t's cattle is much under-fed and dies premature, necessitating loan for a re-purchase.

2. *Source of borrowing for cultivation expenses.*—Loan for cultivating expenses is raised from one of the richer *raiya*ts of the village or of a neighbouring village. All the loans in this village, except two, of which details will be found elsewhere, have been taken from Munda or Pahan *raiya*ts or bhuinhars of the village.

3. *Rate of interest, period of loan, security and documents for borrowing for cultivation expenses.*—Lowland rice-fields and upland *tañr* are given in *zarpeshgi* (usufructuary mortgage) to creditors. In such cases, it is always agreed that the mortgagee shall remain in possession of the land until the loan has been repaid. A mortgage, once created, is hardly ever redeemed, no matter howsoever insignificant the sum borrowed may be.

The rate of interest calculated on the average yield of paddy and upland *tañr* fields comes to about 13 per cent. for the loans taken by the *raiya*ts of the village under report.

The *raiya*t-money-lender does not keep any book of account. He usually gets a mortgage bond executed by the debtor which is rarely registered. Less than one-third of the total debts has been secured by registered instruments. Under the tenancy law in force in this part of the country, a *zarpeshgi* of a *raiya*ti holding, the term of which exceeds five years, is illegal. Consequently, when a *zarpeshgi* bond is registered, the term of the mortgage is mentioned in the bond to be five years, but there is always an understanding between the contracting parties, that the creditor shall enjoy the usufruct of the land until the whole amount has been repaid.

Raising of loan on simple mortgage of land is unknown in this village.

4. *Borrowing for improvements.—Source, rate of interest, period of loan, security, documents.*—The only mode of improvement of land known to the *raiya*t is that of converting upland into paddy fields (*korkar*). Details are not available of a *raiya*t borrowing money solely for this purpose. But, if he raises loan for this object, he adopts the same method of borrowing money as for other expenses of cultivation mentioned in paragraph 3.

5. *Borrowing for other needs.—Source, rate of interest, period of loan, security, documents.*—The *raiya*ts borrow money to feed themselves when the crop fails, for marriage and funeral expenses and for replacing lost cattle. Too much money is spent on marriages, when the drink of country liquor is freely indulged in.

Money is borrowed for this purpose from village *raiya*ts as mentioned in paragraph 1 and in the manner described under paragraph 3.

6. *Amount of annual borrowing for (1) Expense of cultivation, (2) Improvements, (3) Other needs.—Effect of cheaper and easier borrowing.*—In the absence of any book of account, it is extremely difficult to give precisely the actual amount of annual borrowing in the village. But enquiries, such as could be made from the illiterate *raiya*ts, disclose the following figures approximately :—

	Rs.
(1) Annual borrowing for cultivation ...	31
(2) Annual borrowing for improvements ...	
(3) Annual borrowing for other needs ...	123

In coming to the above figures, average of 10 years' debts under the various heads has been roughly taken.

The *raiya*ts confess that even if money could be raised more cheaply for the expenses of cultivation, there is little prospect of better crop.

7. *Loans from Government.—Reasons for not taking loans for improvements.*—Sometime between 1906 and 1910, Government advanced loans to *raiya*ts, in debts, to pay off their back debts, and with the income of the land given to creditors in mortgage, to pay back the Government loan in easy instalments. Two *raiya*ts in the village took advantage of this offer, one of whom paid back the Government debt out of his own earnings but the other had to re-mortgage his land to pay to Government.

People know that they can borrow money from the Co-operative Bank, but they do not borrow from the Bank because they cannot pay up interest at fixed time, and fear that their land may be seized in default. They have no such anxiety in dealing with village *mahajans* to whom they think, they can pay back at their own convenience, although such convenient hour may never come.

8. *Debt-clearing bank.—What do the villagers think about this proposal?*—All the tenants in one voice say that they cannot go in for a debt-clearing bank, if there is a danger of their lands being sold up in default of paying interest at any fixed time. It seems to me, however, that if such a bank is started, it might bring some sort of relief to the *raiya*ts. But the bank should undertake to get its money (principal and interest) repaid by taking certain fixed fractions of the produce each year on the spot, until the entire money has been repaid. The details may be worked out and the work carried on on co-operative basis to ensure easy and regular collection of produce or its value. Any other form of mortgage would hardly bring any relief to the average *raiya*ts, or be welcomed by the villagers.

9. (a) Statement of indebtedness.—

Serial no.	Debt due to Government (<i>takavi</i>).	Debt due to the village <i>mahajan</i> .	Debt due to a co-operative societies.	Debt due to a buyer of produce.	Debt due to other creditors.
1	2	3	4	5	6
	Rs.	Rs. a. p.	Rs.	Rs.	Rs.
1	..	592 0 0	..	..	..
2	..	70 0 0	..	..	..
3	..	50 0 0	..	..	..
4	..	200 0 0	..	..	..
5	..	300 0 0	..	..	..
6	..	40 0 0	..	..	..
7	..	120 0 0	..	..	..
8	..	82 0 0	..	..	..
9	..	74 0 0	..	..	..
10	..	Nil	..	..	50
11	..	130 0 0	..	..	300
12	..	17 8 0	..	..	..
13	..	253 0 0	..	..	..
14	..	5 0 0	..	..	..
Total	..	1,933 8 0	..	..	350
Grand Total	2,283 8 0

The total indebtedness of the *raiyats* of the village is Rs. 2,283-8-0 which gives an average of Rs. 37-7-0 per household of the *raiyats* in the village.

- 9. (b) *Analysis of indebtedness.* (See the five questions in the printed "*Instructions to the investigator*").—(1) Exact data for the analysis of indebtedness under each head are difficult to obtain. The *raiyats* usually borrow small sums of money at a time, and when the debt accumulates, the creditor gets a registered or unregistered bond executed by the debtor for the whole amount. On thorough enquiry,

* The creditor belongs to a neighbouring village and is a relation of the debtor.

after going into the history of each individual debt, the following percentage under each head has been obtained :—

	Per centum.
(a) Repayment of earlier debts	17.5
(b) Marriage and other social occasions	21.9
(c) Famine and other kinds of distress	36.6
(d) Payment of land revenue or rent	1.8
(e) Purchase of seeds and manure ... ..	...
(f) Purchase of improved implements	13.5
(g) Sinking of wells and other improvements	8.7
(h) Non-payment of interest on due dates	Nil.
Total	100.0

(2) Loans on simple mortgage of land with stipulation for a fixed rate of interest is unknown in this village. Lands are given in usufructuary mortgage to secure the debt. Taking the average yield of land, the rate of interest, as mentioned elsewhere, comes to about 13 per cent.

(3) So far as the village under report is concerned, not a single debtor-*raiyat* has been kept on the land as under-*raiyat* of the creditor. The creditors mostly belong to this very village and to the class of *raiya*s. They cultivate the lands themselves.

The total area of land which has passed to the hands of mortgagees within the last 20 years is 11.72 acres of paddy and 13.74 acres of *tanr* lands, which gives a percentage of 3 per cent. to the total culturable *raiya*ti lands in the village (lowland and upland included).

(4) Cultivation is not becoming less efficient. For reasons, please see the first paragraph under paragraph 9(3).

(5) Out of the total debt of Rs. 2,283-8-0, Rs. 909 only, or 31 per cent. is secured by registered mortgage on land.

10. *Marketing*.—The *raiya*s sell their produce in neighbouring markets on market days. Most of the produce is sold shortly after the harvest. There is no place reserved to store crops. The surplus crop is covered with straw in a thickly-walled straw case, called *mora* and kept anywhere in the bed-room. The size of *mora* varies, but it usually contains 8 to 10 maunds of paddy. The contingency for storing all the paddy together by the entire body of *raiya*s has not so far arisen. The tenants take the produce to market for sale, whenever they want to purchase other commodities of life.

11. *Cheaper credit*.—The answers to the questions under this head will be found in paragraph 8. My own impression is that the *raiya* cultivates the land because he thinks there is no way out of it. The

idea of making improvements or devising means of irrigation by digging well, etc., seldom occurs to him. If better facilities are given to raise loan, more money will be spent on marriages and *Shradhas*. The tenants of this village have no idea of the value of cheaper credit.

12. *Use of savings*.—The tenants do not bury rupees, because it appears from enquiry that their impression is that, if they do so, the earth will eat them (the rupees) up. The richness of the individual *raiyyat* consists in owning larger number of cattle which he sells, when necessary, to lend money to the needy *raiyyat* on a *zarpeshgi* of the latter's land. The *raiyyats* are illiterate and have no idea of the utility of post-office savings bank.



सत्यमेव जयते

VILLAGE RAMPUR KUMHARKOLE.

District Muzaffarpur.

By Maulavi M. A. AHSAN, of Co-operative Department.

1. *Extent of borrowing for cultivation expenses.*—The survey was held on the 1st, 2nd, 3rd and 5th of November 1929 in the village which is situated close to the Sahdai Buzurg Railway Station on Katihar-Cawnpore (Bengal and North-Western Railway) line and consists of 90 houses with a population of 494, all of whom are Hindus and more than three-fourth of the inhabitants belong to the Rajput class, mostly literate and a few well-read and quite intelligent people. A large number of the families have got one member each in service somewhere or other and as such get monthly remittances from him, which, as circumstances stand at present, goes a great deal to add to the meagre income, derived from the fields in times of scarcity, as is reported to be the case for the last three years, due to the proverbial scarcity of rain.

The total holdings of the village consist of 175 bighas all of which are up-lands excepting about 10 bighas which are low-lands. About two bighas are waste land. The annual average rental per bigha is estimated at Rs. 3-8-0; unlike the neighbouring villages, tobacco-leaves and chilly, two very rich crops widely brought into cultivation in this area, are not as extensively grown in this village although the land is quite suitable for this. The reason ascribed is that cultivation of these two crops require hard labour, to be put to, which, the villagers being mostly Rajput, are not generally used to and that labourers are not available in sufficiently large number to be employed for this purpose. The principal crops grown are maize, rahar, wheat, gram, kerao, khesari and sarso.

People, on the whole, appear to me to be quite appreciative of giving education to their children. There is no school in the village proper but within a distance of one mile there are two schools, one a lower primary school at Bishunpur and the other a middle vernacular school at Sahdai Buzurg. The boys of the village are students of the middle vernacular school and in the lower primary school is sent a large number of boys. This is a good feature—hardly to be found to this extent in other villages of the neighbourhood.

The total amount of income of this village from all the sources is about Rs. 45,000, while the total annual expenditure during a normal year is Rs. 43,775. This, of course, excludes marriage, *sradh* and other ceremonial expenses but includes all other sorts of expenditures.

People generally do not like to borrow unless in unavoidable circumstances and it is pleasing to note here that there is no professional

money-lender in this village. Of course in times of need people go to the richer *raiya*s of the village among whom are mentioned the names of B. Kalar Singh, Peare Singh, Gajadhar Singh and Amir Singh. It was also given out to me that in time of emergencies the man in service outside the village generally succeeds in making necessary arrangements to borrow from the people of the place, where he is in service, and thus meets the situation. Loan is seldom contracted for agricultural purposes on that term of borrowing which calls into account the conduct of money-lenders and makes this business oppressing for the poor people. Generally *dastgirdan* (a loan contracted on promise to repay within a month or two at the latest) loan is available in the village for such purposes and is returned as soon as a remittance from a service-holder is received. No interest is said to be charged in such cases unless the money be not paid within the promised time. The Co-operative Society of the village furnishes another avenue in such cases. Out of 90 houses as many as 25 families are members of the Co-operative Society who owe Rs. 3,932 to the society and Rs. 700 to outside creditors.

Majority of the people have not to borrow for cultivation purposes. The reason why some people have to borrow and others not is said to be that those who are richer and happily well-placed meet the expenses without borrowing while those who are poor and can hardly manage to live from hand to mouth have to borrow of necessity. The other reason is said to be that there are persons in the village, of course, from among the Rajput class, who do not themselves work in the fields and as such have to employ unusually larger number of labourers than those who work themselves. In such cases if the entire cost of wages cannot be met out of one's own pocket one must borrow but such borrowing is generally incurred as a *dastgirdan* (temporary) loan returnable in a month or two.

The total indebtedness of the village extends to about Rs. 12,563 out of which Rs. 4,000 has been contracted from the Co-operative society and the total number of debtors is 50.

The average indebtedness per head is Rs. 21 and odds.

The total amount of borrowing incurred for cultivation expenses is Rs. 200 per year for cultivation of land in the village.

2. *Source of borrowing for cultivation expenses*.—Money for cultivation purposes is borrowed from (1) Rampore Kumharkole Co-operative Society and (2) brother *raiya*s of the village among whom figure prominently (1) Kalar Singh, (2) Peare Singh, (3) Gajadhar Singh, and (4) Amir Singh. It is never borrowed from a money-lender living at a distance or as a matter of fact from any other man of other villages. There is no money-lender in the village proper. The above-named persons who are Rajputs and average type of *raiya*s generally meet the needs of the village people as also those who can afford to lend, do so.

3. *Rate of interest, period of loan, security and documents for borrowing for cultivation expenses.*—The rate of interest is as follows :—

1. To Co-operative society—12½ per cent. per annum.
2. To debt contracted from other persons of the village—Rs. 28-2-0 per annum (1½ pice per rupee per month).

These loans are taken between the months of *Kartick* and *Aghan* and again between the months of *Asahr* and *Savan* each year and are paid back in the months of *Baisakh* and *Asin* when crops are ready. The security given for such loans is, in case of the Co-operative Society, the joint and several liability of the members as also the personal and landed security of the borrower and his sureties. In case of village *mahajans* the security offered is (1) hand-note, (2) *makfula* (simple mortgage), (3) *Sudhbhara* (usufructuary mortgage) of the borrower's landed property.

In case of Co-operative Society the borrower's signature along with his sureties' is taken in the loan register prescribed for the purpose and if the loan for cultivation purposes together with the outstanding dues against him exceeds Rs. 200 he has to execute a collateral security deed (a document requiring registration in usual manner) over and above the usual attestation in the loan register. In case of loan taken from village men I am told there is no book maintained for the purpose as on the one hand there is no professional money-lender, who alone are known to maintain such books and on the other the people luckily have not to borrow off and on. In case of borrowing of small sums of money, it is sufficient to execute a hand-note and if the amount is heavy then either a simple or usufructuary mortgage deed is registered.

4. *Borrowing for improvements.—Source, rate of interest, period of loan, security, documents.*—No such improvement had been made in the last 20 to 30 years and as such there had never arisen an occasion to borrow for purpose like this.

5. *Borrowing for other needs.—Source, rate of interest, period of loan, security, documents.*—Yes, we have to borrow but not usually. Such borrowings are made from the richer *raiyats* of the village, more particularly from Babu Peare Singh of the same village, on the security of land to which effect a document has to be executed and registered. Borrowing for such purposes is also made from the Co-operative Society of the village. The condition mentioned in case of mortgage document executed to private persons of the village is that if, on a suit being instituted in a court of law within six years from the date of execution of the document, the land offered be found insufficient to fetch the decretal amount, the lender will be at liberty to realise the balance sum from other properties of the borrower. In case of usufructuary deed if the lender be dispossessed of the security land any time before the loan money is paid back to him he can charge interest (to be calculated on the average of the value of produce of the land) on the principal amount. In case of loan incurred through hand-note the time of

repayment is either definitely given or the loan has to be repaid when called for by the lender.

In case of a debt incurred through registered document from private persons of the village the period of repayment is explicitly mentioned in the document, which in this village generally runs from three to five years but if the borrower wishes to make repayment before the stipulated period the money is generally accepted by the lender. If the money is not paid within the period of stipulation no action is generally taken up to the period of limitation fixed by law and even then the matter is first put in a *panchayati* meeting (a meeting of the elders and the people held in esteem by the villagers at large) for decision and amicable settlement. If the matter still remains obscure it is then only that resort is had to law courts.

In the Co-operative Society of the village the period of repayment extends from one to five years.

6. *Amount of annual borrowing for* (1) Expense of cultivation Rs. 1,000, (2) Improvements nil, (3) Other needs Rs. 2,000.—Effect of cheaper and easier borrowing.

The amount of annual borrowings for such purposes may approximately be fixed at Rs. 1,000 including the loans incurred for cultivation outside the area of the village (several people of this village have got landed properties at Bhagalpur and Purnea also) and excluding it at about Rs. 200.

Yes, we are pretty confident that better crops can be raised if money can be available easily at cheaper rate for such purposes. We can then have sufficient number of good and strong cattle for cultivation purposes and arrange for better seeds, improved implements and manure, etc.

7. *Loans from Government.—Reasons for not taking loans for improvements.*—None of us has ever taken a *takavi* loan. We know that we can have such borrowings made from the Government but do not do so because it entails a good deal of trouble and harassment before one can expect to get the loan and also because one who incurs such loan is treated with contempt in his society.

8. *Debt-clearing bank.—What do the villagers think about this proposal?*—Yes, we certainly think that a bank which will make credit facile and cheap for the *raiyat* would be a very beneficial thing and we will have no hesitation in mortgaging our land to the extent which may be deemed to be considerate in proportion of the amount borrowed.

After the receipt of this reply I questioned the people as to why they borrow at the rate of Rs. 28-2-0 per cent. per annum from other persons instead of doing so from the Co-operative Society already in existence in the village, at 12½ per cent. per annum; the answer came forth promptly that the rules of Co-operative Society require payment of Re. 1 as admission fee and compulsory purchase of shares of the society which operates very harshly in case of persons who need small sums of money and again because very often money is not available promptly to meet urgent demands of the *raiyat*.

9. (a) Statement of debts in village Rampur Kumharkole, police-station Mahnar, subdivision Hajipur, district Muzaffarpur.—Statement of indebttness.—

Serial no.	Debt due to Government (takavi).	Debt due to the village mahajan.	Debt due to a co-operative society.	Debt due to a buyer of produce.	Debt due to other creditors.
1	2	3	4	5	6
	Rs.	Rs.	Rs.	Rs.	Rs.
1	..	500	235	..	..
2	630	..	..
3	..	61	..	..	..
4	..	30	..	..	..
5	143	..	..
6	2,000
7	400
8	..	100	175	..	..
9	100	..	..
10	..	30	..	..	..
11	..	25	..	..	..
12	34	..	..
13	80	..	..
14	1,100	..	215	..	..
15	..	100	..	..	..
16	..	100	..	..	..
17	..	65	..	..	..
18	..	20	80	..	..
19	..	10	..	..	..
20	700
21	..	25	..	..	..
22	187	..	..
23	50	..	..
24	46	..	..

Serial no.	Debt due to Government (<i>takavi</i>).	Debt due to the village <i>mahajan</i> .	Debt due to a co-operative society.	Debt due to a buyer of produce.	Date due of other creditors.
1	2	3	4	5	6
	Rs.	Rs.	Rs.	Rs.	Rs.
25	..	60	..	..	..
26	..	45	..	..	..
27	..	10	..	..	..
28	..	45	..	..	..
29	..	10	..	..	..
30	..	300	..	..	..
31	36	..	..
32	..	10	..	..	..
33	..	75	..	..	..
34	..	300	..	..	..
35	80	..	..
36	..	300	..	..	..
37	205	..	..
38	80	..	..
39	150	..	..
40	..	300	..	..	..
41	..	250	..	..	..
42	..	10	..	..	..
43	..	250	..	..	..
44	..	650	..	..	..
45	..	500	..	..	..
46	964	..	..
47	..	201	..	..	..
48	..	25	..	..	..
49	215	..	..
50	151	..	..
Total	..	5,507	3,958	..	3,100
Grand Total	12,365

9. (b) *Analysis of indebtedness.* (See the five questions in the printed "Instructions to the investigator").—(1) The proportion of debt incurred in the village for various purposes is as given below :—

	Proportion.
(a) Repayment of earlier debts	23.54
(b) Marriage and other social occasions	31.34
(c) Famine and other kinds of distress	6.61
(d) Payment of land revenue ... ..	.63
(e) Purchase of seeds and manure	2.58
(f) Purchase of land	5.58
(g) For advancement of land ... ..	.48
(h) For construction of houses	23.08
(i) Trade	6.16
Total	100.00

(2) The rate of interest charged by various creditors is as given below :—

(i) Rampore Kumharkole Co-operative Society—12½ per cent. per annum.

(ii) From persons of village—Rs. 28-2-0 per cent. per annum.

(i) The Co-operative Society charges interest up to the date when repayment is made. It never charges compound interest which is legally prohibited.

(ii) In case of village persons the method of calculation varies on the nature of loan which may be classified under the following heads :—

(a) *Dastgardan* (temporary loan), (b) hand-note, (c) *makfula* (simple mortgage), (d) *Bharna* (usufructuary mortgage).

(a) and (b). No interest is charged on the first kind of loan if the money is paid in the promised period otherwise the borrower has to execute a hand-note for the same. The rate of interest varies between Rs. 18-12-6 and Rs. 28-2-0 per cent. per annum. Such loan is generally contracted for agricultural purposes and is repaid when the borrower can find it convenient for himself to do so, which is generally after the crops are ready. Simple interest is realised up to the date of payment.

(c) *Simple mortgage*.—Interest on such loans are charged at Rs. 28-2-0 per cent. per annum and is calculated up to the date of payment. Where it is a condition laid down in the document that the borrower will have to pay compound interest, if he does not pay up interest punctually every year, by a certain fixed time, as mentioned in the deed the lender has the right to charge compound rate of interest. But this has never been done in this village. Simple interest is charged up to the date of payment.

(d) *Bharna debt*.—The lender continues to appropriate to himself the produce of the land in lieu of interest accrued.

In Co-operative Society the instalments have always been realised in time. If any member gives proof of wilful default recourse is had to section 43-L of the Co-operative Societies Act.

Persons of the village who advance loans first hold a *panchayati* meeting consisting of the elders of the village when the matter is generally amicably settled. If the borrower does not come to term even then complaint is lodged in law courts.

(3) There is no such instance in this village although there had been several instances when lands were auctioned in rent-arrear but ultimately matters were settled with the landlord and the land remained in actual possession of the cultivator.

(4) Needs no answer.

(5) Of the total debt of about Rs. 10,000 incurred in the village a sum of about Rs. 4,000 is secured by registered mortgage on the land.

Marketing.—We sell our produce either to *banias* or other villagers coming at our doors for the purpose or sometimes we take it for sale to *banias* of Mahnar road (a market at a distance of about two miles from this village) which is done according to individual suit and convenience.

If anyone needs money badly he sells his produce immediately after it is ready, otherwise if one can afford to wait, he does so. People generally sell it soon after harvest.

If we can wait till better price is available the produce is stored in our own respective houses. We have never thought of uniting together to build storing place, as a need of it was never felt. The place available in our own houses is sufficient for the purpose.

Generally we do get fair treatment from the purchaser. He offers us the price prevalent in the villages.

We have not to sell our produce to those to whom we owe.

We never used to take advance from a grain merchant or any other person on the security of the standing crops. But sometimes we sell the tobacco-leaves (not any other crop) when the crop remains standing in fields. This is not done because of any need of money but because the price offered appears to be attractive and also because it saves us the cost of cutting the crop which in this case has to be borne by the purchaser.

Grains are usually sold in the village proper or the markets in close suburbs in which case every individual takes for sale his own surpluses.

Tobacco-leaves, if not sold in the village, are packed and transported to known warehouses at Cawnpore, Barh, etc., by rail and the railway receipt is transmitted by registered post to the consigner with necessary instructions or when some body wishes to go himself he does so. Sometimes one or two men of the village go on behalf of several persons whose tobacco is transported and make negotiations for sale

on behalf of all. If a purchaser comes in the village and offers suitable price we sell to him, in which case, he collects and sends it wherever he likes.

11. *Cheaper credit.*—The result of money being available at cheaper rate, will, in our opinion, be conducive to our best interests. There will not be more borrowing on account of this for purposes which will not directly benefit us and improve our condition but we might borrow more with a view to make agriculture a really paying thing to us. We will not spend more on marriages and *saradhs* than what is absolutely needed.

We have no other idea about the result of cheaper credit excepting that it will avail us an opportunity to prove our worth.

12. *Use of savings.*—We utilise our savings in buying land, taking *makfula* or *sudhbharna* (simple or usufructuary mortgage) and also loan out to others when any one needs money. Sometimes we buy ornaments also even though there may not be any ceremonial function in the family in justification of this. We do not bury small sums of money. Money is buried when at least there is one thousand of rupees to do so. On my questioning whether the women folk bury the money with them there was an uproar of laughter and people said that they do not know what their ladies do nor they are inquisitive about this as the money with them must always be safe. We do not put our savings in the Co-operative Society on an extensive scale. We neither put it in the post-office savings bank nor in purchase of postal cash certificate.

We know the existence of post-office savings bank but do not know anything about postal cash certificates. The question of the treatment we get from the post-office staff does not arise as no one of us has any account in its savings bank.

On my questioning why people do not put in their savings in the co-operative society or the post-office savings bank the reply offered was that they prefer to keep it in own custody in hope of making a more profitable use of it by either loaning out to others or purchasing more land, as opportunities offer.

VILLAGE CHATUA.

District Cuttack.

**By Babu PRAHLAD CHANDRA PATNAIK, Honorary Secretary
and Honorary Organiser, Kujang Central Co-operative Union**

Question 1.—Of the 96 families inhabiting the village 28 families do not cultivate lands.

About 75 per cent. of the cultivating *raiyats* of the village borrow for cultivation purpose in average years. The loans are mostly in kind as labourers have to be paid their wages in kind and loans in kind carry less interest than small cash loans incurred in the village. Moreover loans in kind are more readily available.

These borrowings are due to the fact that most of the *raiyats* are indebted from before and that in average years their income is not sufficient to meet all expenses, after paying off the debts.

The rest of the *raiyats* are either rich enough not to require any loans or too poor to have any credit.

Question 2.—Loans are taken for agricultural purposes from the village co-operative society and from the village money-lenders. The village money-lenders are not professional money-lenders but are only substantial *raiyats* and do not belong to any particular caste or community.

Question 3.—The rate of interest charged is as follows :—

(i) By the co-operative society—Rs. 15½ per cent.

(ii) By the money-lenders for large sums—varying from 18¾ to 25 per cent. and for very small loans—37½ per cent.

Loans for agricultural purposes are generally taken from June to September and they are repayable in January and February. In case of small cash loans from village money-lenders the usual condition is that the borrower must pay him back the principal in January either in cash or in kind and two gounis of paddy as interest per rupee which usually works out to 37½ per cent.

No document is executed for these small agricultural loans.

Question 4.—No such case in the village.

Question 5.—The *raiyats* of the village except the very poorest and landless labourers generally contract loans for these purposes. These

loans are taken from the village co-operative society and from money-lenders and shop-keepers within and outside the village.

Loans from Co-operative societies are repayable in seven years and in case of other money-lenders no definite time-limit is fixed except as provided by law. Repayments depend on the capacity of the money-lenders to get back the loan by insistent demands or by suit.

Generally no mortgage bond is executed except in cases of large loans. The co-operative society also insists on collateral security bonds in such cases.

Question 6.—Average annual loan of the village—

	Rs.
(1) For purpose of cultivation	500
(2) For land improvements	nil.
(3) For other necessities	700

I think that better crops can be reared if loans can be had at cheaper rates of interest for purposes (1) and (2), if there is adequate supervision as in the case of loans from co-operative societies.

Question 7.—No case of *takavi* loan. The *raiya*ts do not know of land improvement loans granted by Government.

Question 8.—There is no necessity for such a land mortgage bank.

The existing co-operative societies can manage the work as well if only the rate of interest can be lowered.

Question 9.—Statement attached.

9. (b) *Analysis of indebtedness.*

1. What proportion of the debt in the village was incurred for—	Remarks.
(a) repayment of earlier debts. 26 per cent.	The rest of the loan was incurred for other purposes chief of which is purchase of land 15 per cent. and trade 24 per cent. and purchase of plough cattle 9 per cent.
(b) marriage and other social occasions. 9 per cent.	
(c) famine and other kinds of distress. 9 per cent.	
(d) payment of land revenue or rent. 3 per cent.	
(e) purchase of seeds and manure. nil.	
(f) purchase of improved implements. nil.	

- (g) sinking of wells and other improvements. nil
- (h) non-payment of interest on due dates. nil.
2. What rates of interest are charged by the various creditors and how is it calculated? How is payment of the debt enforced? Simple interest varying from 15 per cent. to $37\frac{1}{2}$ per cent. By repeated and insistent demands.
3. Are the *raiya*ti holdings of this village passing out of the hands of the actual cultivators who are kept on as under-raiyats? What amount of the total land has so passed in the last 20 years? In some cases this has happened. About 50 acres of land have so passed during the last 20 years.
4. If the land is so passing, is cultivation becoming less efficient? No.
5. How much of the total debt in the village is secured by registered mortgage on the land? One-sixth of the total loan of the village is secured by registered mortgage.

Question 10.—The average *raiya*ti sells almost all his excess stock soon after the harvest. The *raiya*ts can keep their paddy till the rise of the market in pits under the ground. Dealers generally come to the village to buy paddy, etc., and terms are always cash. The *raiya*ts have not thought of a common granary but appreciated the idea when explained to them. The *raiya*ts have no complaint against the dealers. No advances are made by dealers but small advances are made by *bhadralok* classes for rice for home consumption.

Question 11.—If loans are granted at cheap rates of interest, the *raiya*ts, if left uncontrolled, will generally squander away the money in ceremonies, etc., but if adequately supervised and guided along proper lines they may be induced to grow better crops or make land improvements.

Question 12.—Some parts of savings are certainly spent in buying ornaments. The practice of burying savings is now wholly discarded. Generally the *raiya*ti utilises small savings in lending out to his needy neighbour at a high rate of interest. It is for this reason that deposits in the village co-operative society are so scanty as these deposits carry less rate of interest than the loans. The substantial *raiya*ti uses his savings in generally burying or keeping loans in mortgage. This village

is almost six miles from the nearest post-office and the *raiya*ts have no idea of the post-office savings bank or cash certificates.

Serial no.	<i>Takavi</i> loan.	Loan from village <i>mahajan</i> .	Loan from Society.	Loan from the purchaser of agricultural products.	Outside <i>mahajan</i> .	Total.
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	..	60	..	..	30	90
2	..	30	..	..	..	30
3	..	20	114	..	..	134
4
5	84	..	..	84
6
7	..	9	..	..	..	9
8
9	60	60
10	92	..	..	92
11
12	..	3	..	..	50	53
13	67	..	..	67
14	..	15	44	..	..	59
15
16
17
18	..	15	..	..	..	15
19
20	..	10	..	..	..	10
21
22
23
24

Serial no.	<i>Takavi</i> loan.	Loan from village <i>mahajan</i> .	Loan from Society.	Loan from the purchaser of agricultural products.	Outside <i>mahajan</i> .	Total.
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
25
26	186	2	15	203
27	249	..	..	249
28	45	45
29
30	60	60
31	762	..	250	1,012
32
33
34	..	92	..	..	..	92
35	383	..	250	633
36	..	50	63	..	20	133
37	501	..	..	501
38	..	5	149	..	..	154
39	60	60
40	60	60
41	769	..	..	769
42	287	..	700	987
43
44
45
46	6	..	..
47	10	..	..	10
48
49
50

Serial no.	<i>Takavi</i> loan.	Loan from village <i>mahajan</i> .	Loan from Society.	Loan from the purchaser of agricultural products.	Outside <i>mahajan</i> .	Total.
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
51
52	..	7	..	..	..	7
53	..	21	..	..	..	21
54
55
56
57
58
59
60	..	40	..	..	..	40
61	45	..	56	101
62
63
64
65	18	..	..	18
66	25	..	..	25
67	91	20	..	111
68	267	8	..	275
69
70	150	..	30	180
71	69	..	..	69
72
73	7	..	..	7
74	32	..	..	32
75
76	..	7	..	..	..	7

Serial no.	<i>Takavi</i> land.	Loan from village <i>mahajan</i> .	Loan from Society.	Loan from the purchaser of agricultural products.	Outside <i>mahajan</i> .	Total.
1	1	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
77	..	20	10	..	..	30
78	181	..	20	20
79	..	5	68	..	..	73
80	95	25	9	129
81	18	..	..	18
82	..	20	191	..	..	211
83
84	..	90	88	..	..	178
85	16	..	..	16
86
87
88
89	140	..	80	2220
90	15	15
91
92	..	10	39	..	..	49
93
94	12	..	..	12
95	..	20	..	..	..	20
96
Total	..	549	5,322	63	1,810	7,744

VILLAGE DIMBIR.

District Puri.

By JAGABANDHU MAHAPATRA, V year Economics Student,
Patna College.

1. *Extent of borrowing for cultivation expenses.*—The village consists of 60 families. Of them, almost 50 per cent. of the people are free from any debt. Of the remaining 50 per cent. nearly 25 per cent. have got small debts and have got assets enough to pay off that debt at any particular time. The real indebtedness lies with the remaining 25 per cent. What amount of the total debt of these people is due to agricultural expenses is very hard to determine because the villagers treat all debt in the same fashion and keep no separate records of it. Generally debts for average agricultural purposes consist of borrowings in kind (paddy); and small sums of money for which usually gold or silver is kept as security. The village consists mainly of Karan families and few Brahmin families. Many individuals of this village have got supplementary occupations. Usually one or two members of each Karan family attends to some literate occupations e.g., service under Government, vakil muharrirship, stamp vendorship, etc. Of the Brahmins some are *purohits*, some astrologers, etc. It is only those families who have got none of their members engaged in such supplementary occupations and the total land at their possession is not more than 10 *mans* ($2\frac{1}{2}$ acres) that they are engaged in borrowing. The village is fairly prosperous and members have got decent standards of life.

2. *Source of borrowing for cultivation expenses.*—The borrowings for cultivation expenses are made usually from village money-lenders. There are six or seven families in the village that usually engage themselves in lending out paddy and if necessary small sums of money (Rs. 5 to Rs. 25 usually). None of this village have borrowed from any co-operative society.

3. *Rate of interest, period of loan, security and documents for borrowing for cultivation expenses.*—The loans of paddy for agricultural expenses are usually made in the month of September or October and are paid back in the month of February or March, because by September the new crop is not ready and the produce of last year is finished. The *rai-yats* borrow paddy both for their own eating (which is practically a part of the agricultural expense) and for paying wages also. The rate of interest is usually 25 per cent., but as these loans are meant to be paid back only after 6 months the rate is virtually 50 per cent. In fact only half of the people pay back in six months and nearly

80 per cent. pay back within a year for if they fail to pay within a year, interest will be calculated at compound rate, last year's interest being calculated as this year's capital. Thus the interest rate may be said to vary from 25 per cent. simple to 50 per cent. compound. This is so probably because no security is demanded in such annual borrowings for cultivation expenses only an entry in the money-lender's book being sufficient except in the case of those persons whose honesty the money-lenders seriously doubt. Usually no other documents are written excepting in these cases.

While in small money borrowings with gold or silver ornaments as security, no such compound rate of interest is charged. Here again no document is written. Only these valuables are kept by the money-lender and money is advanced at a rate of 25 to $37\frac{1}{2}$ per cent. The rate varies according to the amount borrowed, period within which loans are paid back and the value of the security. For each loan the money-lender usually keeps articles whose value must be double the amount of the loan. If the loan is paid back within a short time the rate is $37\frac{1}{2}$ per cent. and the rate varies inversely to the time of paying back and is never less than 25 per cent.

4. *Borrowing for improvements.*—*Source, rate of interest, period of loan, security, documents.*—The villagers could not give any instance of borrowing for improvements. Almost all the lands of the village has been occupied and nobody ever thinks of turning pasture land into cultivated field. The people follow only customary lines. As to digging wells or tanks the people say that whenever there is any such urgency, they either approach the district board or some rich persons and in very rare cases raise small subscriptions. Thus there seems to be no occasion for borrowing for improvements.

5. *Borrowing for other needs.*—*Source, rate of interest, period of loan, security, documents.*—Yes, by far marriages, funeral expenses furnish the chief instances for borrowing. People also borrow heavily to feed themselves when crops have failed and they also occasionally borrow for replacing lost cattle. But the last item is not very important for when a bullock dies or any costly agricultural instrument is destroyed they try to manage by borrowing these instruments from other people whenever they need and try to wait till their savings are sufficient to buy one. Very often they have to pay small sums of money (say 4 annas) to borrow particular agricultural instruments (e.g., yoke and a pair of bullocks).

For these larger borrowings people either borrow from the village *mahajans* or from other *mahajans* of the Puri town. The rate of interest prevalent in these parts is 25 per cent. on such loans but if any such borrowing exceeds a thousand rupees at a time and for a longer period which only rarely happens people can get loan at $12\frac{1}{2}$ per cent. interest. In these cases people mortgage their landed property and the documents have got to be registered. The loans are usually taken for a definite number of years but are not usually paid back during that period.

Usually the loans are made for 1 to 3 years and very usually they are paid back in 11 or 12 years or more. In some cases when people are unable to pay back their land is seized by the money-lender and put to auction.

6. *Amount of annual borrowing for (1) Expense of cultivation, (2) Improvements, (3) Other needs—Effect of cheaper and easier borrowing.*—The total annual borrowing for the expense of cultivation is according to the version of many of the leading villagers probably about 20 *varans* of paddy which is roughly equal to Rs. 320 while the total money borrowing is nearly equal to Rs. 250 yearly.

As has been stated above the villagers cannot give any instance of borrowing for improvements while the total debt for other needs is nearly Rs. 800 per year.

The villagers seem to be satisfied with the credit facilities that are available in the village. Their idea is that no better crops can be raised by spending more money for they think that whenever any expense seems desirable and necessary they always meet it and for that the present credit facilities are sufficient. Thus on the whole they think that not only cheaper credit is not necessary but further cheaper credit would lead to heavy borrowing and would make matters worse.

7. *Loans from Government.—Reasons for not taking loans for improvements.*—The people take recourse to *takavi* loans only when crops fail and most of them define *takavi* as loan given by Government in times of famine in order that people may not die of starvation. Thus there seems to be a good deal of ignorance about the nature of *takavi* loans. The main complaint about *takavi* loan is that it is given on special occasion; and it is collected regularly and possibly severely because they do not get the same privilege to put off their creditor from day to day as with the village money-lender. The village money-lender gives loan for one year and the villagers by exciting his sympathy in many ways put off payment till the twelfth year. Thus they pay according to their own convenience and by instalments the extent and nature of which are determined by themselves.

8. *Debt-clearing bank.—What do the villagers think about this proposal?*—The villagers do not think such a bank to be necessary because in that case they will have to pay interest on that part of the present loan which was interest of the previous loan and thus the total indebtedness will increase. Besides some of them have borrowed comparatively smaller amounts from eight or nine money-lenders so that no individual money-lender has got serious temptations to take legal steps for the enforcement of the loan and they by trying to hide the information about their total debt and by flattering different creditors separately pull on decently and keep up their personal credit. Besides the very idea of regular payment is foreign to them and they want to retain the right of themselves being the sole judge of how much to pay and when to pay. They are ready to promise regular payment

to an individual and possibly try to be regular but they fear that to promise to be regular with the *Sarkar* means that if once they fail to pay, they will be ruined.

9. (a) *Statement of indebtedness*.—Complete and fuller statement on this heading is not available. The only debt which the villagers seem to have is either from the village money-lenders or from *mahajans* living at a distance, the latter being professional men. There is very little *takavi* loan and no loan either from co-operative society or any buyer. Two kinds of loan are clearly marked out, viz., loan in kind and loan in money : the former being mainly for agricultural purposes and 75 per cent. of the latter mainly for non-agricultural purposes. The villagers again are not exact in their own statements. Most of them give round numbers and average figures. There are six or seven families that are habitual lenders. Some ten or eleven families who are landless labourers are practically without loan. There are twelve or thirteen families that are neither lenders nor borrowers and who are fairly well-to-do. Thus on the whole there are twenty-eight to thirty-one families that are practically free from debt.

The following table might be useful :—

No. of families.	Debt in kind.	Debt in money.
31	...	...
14	3 <i>varans</i> of paddy = (Rs. 48) each.	Rs. 50 each.
15	5 <i>varans</i> = (Rs. 80) each.	Rs. 100 each
Total	Rs. 1,872	Rs. 2,200.
	<hr/> = Rs. 4,072. <hr/>	

Thus the loan per family on the average comes to be nearly Rs. 68.

9. (b) *Analysis of indebtedness*. (See the five questions in the printed "*Instructions to the investigator*").—(1) Such detailed informations as this section requires is not available. The villagers themselves do not keep accounts of these loans and some of the loans are really very old being handed down from father to son. Still this much is sure that at least Rs. 1,872 is loan due to agricultural expenses and roughly speaking a little more than Rs. 2,000 is due to agricultural loans and a little less than Rs. 2,000 is non-agricultural loans (consisting the fact that some money also is borrowed to meet agricultural expenses).

(2) On loans in kind an interest of 25 per cent. (compound) is charged but in view of the fact that these loans are made for six months the rate is really 50 per cent. When the total loan due to a certain person becomes more than possibly he can pay then the *mahajan*

insists on documents to be registered. In other cases he sends Muhammadan peons to harass him and abuse him so that he becomes compelled to pay. The money loans are of two kinds, e.g., (a) those whose amount is small and for which gold and silver ornaments are kept as security. When the capital plus the interest exceeds the value of the security the creditor recovers the money by selling it. (b) Bigger loans for which security is landed property or *raiya* rights on land. The non-payment of these loans are sued for in the court.

(3) Not very much. Some of land in the village belong to people living in the town whose main source of income is other than agriculture. These people seldom come to the villages and the *raiya*s always-under-pay them and get clear profit. Thus these people never like to part with their *raiya* rights. There have been only few instances of *raiya* rights passing out of the hands of the *raiya* and these few instances are not so much due to non-payment of debt as to non-payment of rent. During last twenty years not more than 15 acres have so passed.

(4)

(5) About Rs. 1,600, i.e., nearly two-fifths of the total debt of the village.

10. *Marketing*.—Usually the villagers sell their crops to any purchaser that comes. A man willing to sell certain quantity of paddy simply has to declare his intentions to his friends that he is going to sell so much of paddy at such a rate and as soon as this news spreads, people from neighbouring villages come to his lodge and take paddy at the rate fixed by the seller, of course if they think that rate to be the usual market rate. Sometimes big *mahajans* also declare their intentions to buy paddy at a certain rate and the villagers if they think this rate to be better than the rate at which they can sell at the door, carry paddy to the *mahajans*' door. Sometimes also they sell to such *mahajans* at a cheaper rate because they buy in larger quantities. Thus in both these cases the villagers get fair treatment from their purchasers. But this case, though general, does not cover all instances. Poorer people at the time of paying land revenue usually have to carry their paddy to Delang (the nearest railway centre) and have to sell it there. And now this being either the time which comes immediately after the harvest or the time when many such needy persons have to sell their produce, usually the rate at which the *raiya*s sell their produce is considerably lower than the market rate. Thus either for paying land revenue or for paying off last year's agricultural debts, many people have to part with their produce immediately after the harvest. Now this happens to 25 per cent. of the people of the village. But the case of selling produce to a *mahajan* at an unfavourable rate by reason of the sellers' owing money to him is very rare or rather unknown to this village in particular and as I understand to many villages in this district that are not very far from a railway station. The villagers as soon as they harvest their crops keep the necessary

amount for seeds within bundles made of straw () called *Otiās*. This done they try to pay off that year's debt which they have made for agricultural expenses in kind. After that is done if they have not got money they are compelled to sell a considerable quantity rather at an unfavourable rate for the paying off of land revenue. But those people who cultivate land on *raiyaṭi* tenure are free from this difficulty again because they have not to pay land revenue. The only payment they make is the rent to the landlord and since that is by the terms of the contract usually a part ($\frac{1}{2}$ or $\frac{1}{4}$ as the case may be). Of the gross produce the question of favourable or unfavourable rate does not arise. Thus of the 60 families of the village, only eight to ten families are usually compelled to sell paddy worth almost Rs. 40 a year in order to pay their land revenue. Of the rest some (say 20) do not sell at all or sell only on graver occasions. The remaining thirty have usually to wait till they get a favourable rate. Of them almost twelve families sell paddy seldom exceeding Rs. 40 or Rs. 50 each per year. Ten or twelve of them have to sell still smaller quantities while the remaining five or six do not sell their produce every year. They go on storing till they get very favourable rate otherwise they engage their paddy in lending. Almost 60 per cent. people of the village have got storage houses called (*kothis*) that are built specially for the purpose. Almost 20 per cent. people are landless labourers in whose case storing is not necessary. The rest either bury their paddy underground or keep it in straw bundles. Now both these processes of storing are risky for in the former case there is danger for paddy being destroyed in contact with earth and in the latter case there is the danger of it being eaten away by rats. Co-operative storing is an idea foreign to these people and considering the sense of distrust which each villager seems to have towards another, it seems rather impracticable.

11. *Cheaper credit*.—If the *raiyaṭs* get cheaper borrowing the result probably will be that they will borrow more and since the habit of digging wells or the practice of applying better manures is not very familiar and since the *raiyaṭs* even now are satisfied that they are doing for their crops what best they could possibly do even if they had more money, the net result will be that the money will be illspent if not entirely on marriages and *śradhs* at least in buying more cloths, eating more palatable food or in hiring labour instead of themselves labouring. This is due to the fact that not only the *raiyaṭs* do not know the use of the credit and other technical things but also their knowledge as to the possible means of improving their lands is very poor. By asking many of them I came to know that they cannot believe that any considerable amount of expense in buying manures could repay itself or any attempt to secure cross-breeding of bullocks by co-operative efforts could have any effect.

12. *Use of savings*.—Putting savings in co-operative societies or post-offices or buying post-office cash certificates are entirely unknown to this village and those who know that some people save in the post-office savings bank seem to have curious fears about it. Almost

all of them spend money in buying ornaments, but buying ornaments is not regarded as a part of saving but as a necessity and sometimes people buy ornaments even by borrowing. But usually there are fixed kinds of ornaments which almost every female wears except those belonging to exceptionally rich or poor families. Some four families are in the habit of locking up money in boxes whenever they can and some seven families are in the habit of buying land whenever they get better terms. Of the rest if they have any savings they use if any of the above described ways. Besides there are few (four or five) families who have got the habit of lending out as much of their savings as possible not with a view to get more land but with a view to get more money and store it.



सत्यमेव जयते

VILLAGE TARAR.

District Bhagalpur.

By **B. NARESH CHANDRA SINHA**, Lecturer in Economics, T. N. J. College, Bhagalpur.

1. *Extent of borrowing for cultivation expenses.*—The majority of the villagers have to borrow every year for carrying on their agricultural operations. Only a very small proportion of people do not borrow for meeting their expenses of cultivation. Such people as have some supplementary sources of income do not borrow. In this village consisting of about three hundred householders only three per cent. are free from debt. The supplementary source of income for these people is *mahajani* and service.

2. *Source of borrowing for cultivation expenses.*—People borrow from money-lenders as well as the co-operative society, which is existing in this village. The co-operative society have not been able to supplant the *mahajan* altogether, because the co-operative society does not grant loan then and there. The agriculturists require accommodation from day to day, and in the absence of any savings to these agriculturists, they frequently borrow from the money-lenders. There are some richer *raiyats*, too, who lend frequently, at high rate of interests. There are some outsiders such as Marwaris and the Kabuliwalias who lend small sums at high rate of interests. The village money-lender is a rich cultivator who derives his supplementary source of income from *mahajani* and service. For large sums the people of this village, generally go to the co-operative society.

3. *Rate of interest, period of loan, security and documents for borrowing for cultivation expenses.*—The rate of interest varies from 18 per cent. per annum to 37½ per cent. per annum, on amount not exceeding Rs. 200. But the prevailing rate of interest for small sums is Rs. 37½ per cent. per annum, i.e., two pies per rupee per month. Sometimes the rate of interest on small sum is as high as 75 per cent. per annum, i.e., one anna per rupee per month. The interest is generally compounded at the end of one year. The rate of interest charged on mortgages is generally lower than that charged on hand-notes. The money-lenders advance loans generally either in cash or kind, in the months of September and October and realize 50 per cent. as interest, when the crop is harvested. The co-operative society charges rupee one and annas five as interest per cent. per month, which come up to be 15 per cent. per annum. Poorer class of the people begin borrowing when the agricultural season sets in that is from the month of June to the month of October. They pay back the loans, when the crop matures, i.e., in December and January. Some times payment continues to be made till the month of April. Generally loans are taken by executing hand-notes and on mortgage deeds, such as. *Rachan*, *sudvarna*, etc. Smaller amounts are borrowed on hand-notes and bigger amounts on mortgages. Mortgage credit is resorted to when the unsecured debt becomes larger than the lender

consider safe, and in times of distress for ordinary agricultural needs. It is too often an indication that a weak debtor has fallen into the hands of a strong creditor. It is also laid down in the mortgage document that the money would be realized from other properties when the value of the property is not sufficient to cover the total amount due. The village money-lender sometimes, keeps as pledge certain ornaments from the borrowers over and above the execution of the hand-note.

4. *Borrowing for improvements.—Source, rate of interest, period of loan, security, documents.*—Very few people borrow for making permanent improvements on their holdings. The poverty of the people being a characteristic feature of the locality, the people borrow frequently for carrying on their agricultural operations as well as for satisfying their daily needs. It is only on rare occasions that some (a very small number) people effect improvements on their holdings by borrowing from a rich money-lender and the rate of interest charged is generally the same as that charged on large sums of money borrowed for carrying on their agricultural operations. There is no distinction made between capital required to finance an industry and the money for household expenditure. Nor is there any difference between loans for improvement and loans for current expenditure. The borrower also fails to distinguish between sums borrowed for productive purposes, from the expenditure of which a more than equivalent return is expected, and those taken for current needs, which are generally met from savings or income in other countries. There is hardly any saving to the cultivator of this locality because of the precarious nature of the agricultural industry. In other industrial undertakings, risks are allowed for, for they come about very seldom but here the risks cannot be allowed for, for failure of rain is a frequent sight to the people inhabiting this part of the district. I cannot say how an industry can be said to be paying when it is attendant with so many risks from year to year. This uncertainty has become all the more glaring these days, when zamindars with few honourable exceptions, have allowed all their irrigation works to go to ruins. In my opinion, no improvement on the present situation is possible unless the uncertainty under which the premier industry is carried on, is minimised if not altogether removed. The people in this locality do not think of effecting improvements because the problem with them is how to keep the wolf out of doors. The people cannot give up this industry although it is attended with so many risks due to ignorance, want of any other occupation and their conservation. Hardly anybody keeps an account which will give him a rough idea as to whether he is getting a fair return to his investment. They know that they anyhow find employment.

5. *Borrowing for other needs.—Source, rate of interest, period of loan, security, documents.*—They meet all their needs usually through loans, i.e., for paying rents to the zamindars, for feeding themselves throughout the year, for marriage and funeral expenses, and for purchase of cattle. There is also a system of advancing loans in kind. Generally in the month of *Aswin* (September and October) some richer cultivators

advance maize and other food-stuffs and realise 50 per cent. more as interest in kind. Failing the richer cultivator, they borrow for such purposes from Kabuliwalas at 75 per cent. per annum. When the money required for such purposes is large, the people borrow either on personal securing or on landed security according as the amount be small or large or as to the solvent nature of the borrower. For bigger sums, the period allowed is three years at the maximum and smaller sums are generally realised at the time of the harvest.

6. *Amount of annual borrowing for (1) Expense of cultivation Rs. 900, (2) Improvements Rs. 2,500, (3) Other needs Rs. 850—Effect of cheaper and easier borrowing.*—The total amount of money borrowed every year in this village consisting of about 300 householders comes to be approximately Rs. 15,000 to Rs. 20,000 under all the three heads. The major portion of the amount borrowed is devoted to the meeting of expenses of cultivation and an equal amount for meeting other needs. Hardly any borrowed amount is spent on improvement and if it is so spent, the proportion is very small. This village is peopled by people who are substantial cultivators and majority of them belong to the so-called middle-classes: They depend for their livelihood on agriculture and service and therefore, they require money for carrying on their operations: They can raise better crops if they get money at cheap rate of interest but every prosperity depends upon the facility of irrigation. Irrigation is not at all difficult for the people of this locality as a hill-stream flows to the east of it. The villagers complain that almost every year, they till their lands with care and diligence and do every thing in time still their crops fail because the rain fails at some time or other. The zamindars of this village are not doing what they ought to do by way of provision of irrigation facility. In this particular locality, the Co-operative Department has introduced, sugar-cane and ground-nut. The Department has also purchased on behalf of the people a water-pump for drawing water from the river and the price is to be repaid in ten years. The rate of interest on the price of the water-pump is 7 per cent. per annum. The prospect of sugar-cane is good but ground-nuts have proved a failure due to the ravages of a kind of insect.

7. *Loans from Government.—Reasons for not taking loans for improvements.*—The villagers have taken advantage of the *takavi* loans thrice up till now which are given under the Agriculturist Loans Act and they have repaid all the amounts. The amount advanced as *takavi* loan is very small and consequently it is a drop in the ocean as compared to the needs of the agriculturists at times of distress. The amount ranges from Rs. 5 to Rs. 40 per cultivator. There is no complaint against the procedure of advancing *takavi* loans save and except its insufficient nature. They know that loans under the Land Improvement Act can be had for effecting improvements on their holding, but nothing has been done up till now. The reasons advanced by the villagers were their vexatious conditions as well as the expenses to be incurred in connection with a taking of such loans, e.g., freedom from all other incumbrances, the full payments of the rent, the difficulty of

approaching the officers as well as the payments of illegal gratification to the subordinate staff, etc., etc. Besides there is no question of effecting improvements as the holding because the problem before the people is how to live and the cultivator's sole idea in life is to find out some means which will ensure them decent livelihood. It would be better if Government loans for improvements were distributed through the agencies of the Co-operative Department because people will not feel any difficulty in approaching the officers of the Co-operative Department.

8. *Debt-clearing bank.*—What do the villagers think about this proposal?—People welcome the idea of establishing a land mortgage bank which will take upon itself the task of liquidating the debts of the agriculturists at a cheaper rate of interest. But the proper agency for such work is the Co-operative Department which is in touch with the people. Any other agency which will take upon itself the task of liquidating debts will be unpopular with the people because of the formalities. They promise to repay the interest regularly and they know the consequences of irregular payment. But in my opinion the agriculturists are bound to make default because their industry is carried on under such precarious conditions that a failure of rainfall upsets everything. Therefore much good cannot be expected from the land mortgage bank unless the uncertainties under which cultivation at present is carried on are minimised, if not completely removed.

9. (a) *Statement of indebtedness.*

Serial no.	Debt due to Government (takavi).	Debt due to the village manjan.	Debt due to a co-operative societies.	Debt due to a buyer of of produce.	Debt due to other creditors.
1	2	3	4	5	6
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
1	600 0 0	50 0 0	200 0 0
2	700 0 0	30 0 0	350 0 0
3	500 0 0	..	175 0 0
4	300 0 0	20 0 0	200 0 0
5	400 0 0	35 0 0	100 0 0
6
7
8
9	1,500 0 0	25 0 0	275 0 0
10	500 0 0	20 0 0	300 0 0
11	1,300 0 0	..	3,500 0 0
12	..	100 0 0	800 0 0	100 0 0	100 0 0
					(Mughal).
13	..	650 0 0	1,000 0 0	25 0 0	100 0 0
14	..	25 0 0	..	25 0 0	1,400 0 0
15	800 0 0	..	500 0 0
	..	1,500 0 0	40,000 0 0	500 0 0	18,000 0 0

In this village of 300 house-holders, the total indebtedness is about Rs. 60,000 and only three persons are free from debts.

N. B.—Owns 50 Bighas of land and supplementary income being Mahajani.
Has 100 Bighas of land and gets extra income from service. Has 400 Bighas of land and supplementary income from service and Mahajani.

9. (b) *Analysis of indebtedness.* (See the five questions in the printed "Instructions to the investigator").—(1) It is very difficult to say with any accuracy as to what proportion of this total debt is attributable to the causes mentioned in the instructions to investigator, e.g., repayment of earlier debts, marriage and other social occasion, etc., because the agriculturists do not keep any account of their earning and expenditure. In majority of cases, the agriculturists have inherited the burden of accumulated debts from their ancestors and although legally they are liable to their creditors for their debts to that much only of the property that they have inherited, the religious nature make every cultivator take upon himself all the debts. Besides, all these causes act in a vicious circle and one thing leads on to another. Failure of rain in a year will lead to loans for feeding themselves throughout the year, for the purchase of seeds and cattle, for non-payment of interest on due dates and for repayment of earlier debts, etc. Therefore, it is difficult to find the proportion of debts for each of the purposes. I will try to make a guess. As told above, expenses for improvement mentioned in (f) and (g) are almost non-existent. Nearly 40 per cent. of the debt is attributable to cause mentioned in (e) famine and other kinds of distress and 20 per cent. for agricultural expenses as mentioned in (c). Nearly 15 per cent. of the debt is for causes mentioned in (a), 10 per cent. for causes mentioned in (b) and nearly 15 per cent. for non-payment of interest on due dates.

(2) The prevailing rate of interest on small sums not exceeding Rs. 200 is 24 per cent. to 37½ per cent. per annum. On larger sums the rate of interest charged varies from 18 per cent. per annum to 24 per cent. per annum. Payment of the debt is enforced by having recourse to law courts or by forcibly taking possession of the produce at the time of the harvest.

(3) The land is gradually passing out of the hands of the actual cultivators to the hands of moneyed-men like lawyers and *mahajans*. It is being accumulated in the hands of a few people who are very rich and the cultivators become so many under-raiyats. Nearly 30 to 40 per cent. of the total arable land in the village has become accumulated in the hands of a few rich people.

(4) In parts of this district, where the risks of failure of harvest are many, the lands are passing into the hands of rich people who can invest capital in their holding. In this particular locality where about 30 to 40 per cent. of the land has so passed, agriculture is becoming less paying, but people go on buying lands, because, it give them prestige in the eyes of the people.

(5) It is very difficult to say how much of the total debt is secured by mortgage because the limited time at my disposal did not enable me to make an intensive inquiry into this fact. But to make a guess, it will be seen that mortgages are resorted to when the amount is large or when the lenders thinks it unsafe to lend due to the bad financial condition of the borrower. Sometimes, the borrower has

recourse to mortgage when he falls into the hands of a strong money-lender. Majority of these debts is covered by hand-notes or such dues as rents. Nearly 40 per cent. of the total debt in the village is secured by mortgages.

10. *Marketing*.—Mostly, the village *mahajans* compels the villagers to sell their produce when the crop is on the threshing-floor. It is generally sold just after the harvest because the debt is so great that *mahajans* press hard for the realisation of these debts. Nearly 10 per cent. of the people wait till the month of April or May to dispose off the produce and the rest is consumed and disposed of in the beginning. There is no godown where the produce might be kept till it is sold. Although, there are co-operative societies for giving credit to the agriculturist, there is no co-operative sale society which can help the cultivators to realise a better price from the sale of their produce. The pressing demand of the money-lender makes these people sell their produce in the cheap market. When the money-lenders press hard, these cultivators repay their loans in kind and the price of the produce is generally lower than the market-rate. In this particular village, the price of any commodity is generally determined by the supply of the produce and the need for money to the cultivators. The produce is sold both because there is no better purchaser of produce as also to the fact that cultivator is indebted to the same merchant. As told above, the cultivators borrow all the year round for feeding themselves and their family from some rich cultivator who advances them some food-stuff of the inferior quality and the same is realised at 50 per cent. interest at the time of the harvest, e.g., one maund maize advanced in the month of August will be realised as one and a half maunds of paddy in the month of January. Generally, travelling *beparis* come to the village in search of produce but in this locality, people go to the trade-mart which is at a distance of about 3 miles to dispose of their produce. The latter is generally true of persons who are free from debt. The price of any commodity here confirms more generally to the market-rate as it is situated on the district board road and is very near the railway station. He is compelled to dispose of the produce in the village because he has no bullock-cart of his own as also to the fact that he is heavily indebted to the money-lenders. The full benefits of market organisation cannot therefore reach the cultivators unless their financial position is strengthened so that they may act as free agents in marketing their produce. The difficulties of the cultivators with respect to market are accentuated to a great extent by the lack of any organisation of producers among them; so that each producer is very much handicapped in bargaining with the substantial trader and thus the trader is able to dictate any term that he pleases. The formation of co-operative sale societies are expected to mend matters.

11. *Cheaper credit*.—They say that they are aware of the result of cheaper credit. They promise to clear all their debts when money is available at a cheap rate of interest. They promise to employ this

money on improvements but I apprehend that in the absence of any restraining influence due to want of education, cheaper credit will result in more borrowing as has been seen in the case of the Punjab peasantry. But there is no way out of it. Spread of education, and the raising of the standard of life, and the growth of the habit of thrift, will do away with the bad effects of the cheaper credit.

12. *Use of savings.*—Generally, there is no saving to the cultivators as his income is low as compared to his expenses. Sometimes, he is extravagant on social occasions but on other occasions he is hardly leading a decent human life. Those who save (a very small percentage of people) invest their savings in lands, in buying ornaments and in setting up *mahajani* business. In the absence of any saving, there is no knowledge of the postal savings bank or of the postal cash certificate to the cultivators. They do not know the rules that are observed for these and they find it more profitable to invest them in their own village at exorbitant rate of interest as it gives them power and prestige in the eyes of the people. They have no dealings with the Post Office.



सत्यमेव जयते

VILLAGE SIMAROO RASULPORE.

District Gaya.

By M. SAMSHUL HUDA, Sub-Deputy Collector, Gaya.

1. *Extent of borrowing for cultivation expenses.*—The *raiya*ts in general have to borrow money for the purposes of cultivation. There are 47 *raiya*ts in this village and out of them there are only two or three who do not usually take any loans as they are well-to-do themselves and do not as such need borrowing money from others : rather they themselves lend out money to others. This year fortunately only fourteen of them owe money still to their *mahajans*. The statement of loans as ascertained from the *raiya*ts of the village themselves will be found in the answer to question no. 9(a).

2. *Source of borrowing for cultivation expenses.*—Money in the village is usually borrowed by the *raiya*ts from the village *mahajan* ; sometimes the villagers take loans from *mahajans* of other village as well. The latter live at a distance from the village. The village *mahajan* is a richer *raiya*t and is also a cultivator. The outside *mahajan* is *bania* by caste and carries on money-lending business.

There is no co-operative society in the village.

3. *Rate of interest, period of loan, security and documents for borrowing for cultivation expenses.*—The usual rate of interest charged by the *mahajans* in the village and its locality for money lent out for cultivation purposes is 25 per cent. per annum. The money for these purposes is generally borrowed by the cultivators of this village during the month of *Jeth* or *Asarh*, and is paid back usually in the month of *Baisakh*—principal as well as interest. If any unforeseen reason arises money is often borrowed after *Jeth* and *Asarh* as well, but this is not usually the practice. No security is required by the *mahajan* who lends money to the villagers on his own satisfaction taking into consideration the status of the *raiya*ts and relying on their means. He takes down the names of his debtors in his book ; and in certain cases where he is not satisfied gets hand-notes executed in his favour. In cases where the amount lent is considerably high the *raiya*ts have to execute documents in favour of the *mahajans* mortgaging their holdings or giving temporary possession of the holdings to the *mahajans* (*Ijara Dakhli*). If the money borrowed is not paid back to the *mahajan* within the promised time he realises the interest only in time and the principal amount is allowed to be paid afterwards. But in case the debt becomes overdue the *mahajan* adds the interest up-to-date and the principal together and fixes instalments for the payment of the entire amount in five or seven years without charging any further interest.

4. *Borrowing for improvements.—Source, rate of interest, period of loan, security, documents.*—The tenants of the village do not take any loans for digging wells; their landlords get wells dug and sunk for them. There is only one *raiyyat* in the village who has dug a well, but he is well-to-do himself and has spent his own money for getting the well dug. He is the chief money-lending *mahajan* of the village.

The villagers take loans from the *mahajans* for improvement purposes; and the source, rate of interest and all other terms of such loans are exactly the same as have been described in answer to question no. 3 above.

5. *Borrowing for other needs.—Source, rate of interest, period of loan, security, documents.*—There is usually no need of taking loans for other purposes when the crop is good, as the *raiyyats* get money enough for their personal expenses. Still there are *raiyyats* who require loans for some social expenses even when the produce is good. The main social occasions which necessitate loans for the villagers are marriages and *sradhas*. If money is borrowed for these purposes the *mahajans* lend money on the same terms which have been mentioned in answer to question no. 3 above.

If, however, money is borrowed by the *raiyyats* of the village for paying revenue or rent to the landlord and is paid back to the *mahajan* within two or three months only another kind of interest is charged by these *mahajans*. The *raiyyats* have in such cases to give to the *mahajans* a *Chhara* of 5 seers per rupee in case of paddy and $2\frac{1}{2}$ seers per rupee in case of *rabi* crop, no money being paid in interest above the principal. But this *Chhara* is realised only in cases where the loan is paid back within short time of, say, two or three months.

6. *Amount of annual borrowing for (1) Expense of cultivation—Rs. 1,452-8-0, (2) Improvements—Rs. 70, (3) Other needs—Rs. 686—Total 12,208-8-0.—Effect of cheaper and easier borrowing.*—Naturally the *raiyyats* can raise better crops if they would get money on cheaper rate of interest and in a more easy manner, because the money and labour that they would save by taking money on easier terms and with less botherations would be employed towards the improvement of their cultivation.

7. *Loans from Government.—Reasons for not taking loans for improvements.*—There was a failure of crop in the year 1320 *Fasli* and in that year *takavi* loan was taken by almost all the villagers of the village, Simaroo. After that no *takavi* loan or any other Government loans have been taken by the villagers. There is no complaint against such loans save that there is much botheration and unnecessary delay in getting loans from Government. The *raiyyats* know that the Government are ready to advance money to them for cultivation and improvement purposes but are afraid of the formalities attached to such loans and do not want to get into the botheration in what they call *koshish* and *pairvi* for getting the money from the Government. They say that considerable delay is made in getting

Government loans and by the time the money is advanced to them much harm is already done to their cultivation. This is the reason they give for not applying for *takavi* or other Government loans.

8. *Debt-clearing bank.*—*What do the villagers think about this proposal?*—The villagers appreciate the idea of starting a debt-clearing bank and in case they would get money at cheaper rates of interest they do not mind mortgaging their holdings even. But they say that there should not be 'much ado about nothing' and that they should get money from such banks with as much ease and facility they do from the *mahajans*. They cannot afford to waste much time and energy over observing the forms and rules of such banks. What they want is that they should get the loans just when they require them and are ready to pay the money back in time.

9. (a) *Statement of indebtedness.*

Serial no.	Debt due to Government (<i>takavi</i>).	Debt due to the village <i>mahajan</i> .	Debt due to a co-operative society.	Debt due to a buyer of produce.	Debt due to other creditors.
	Rs.	Rs. a. p.	Rs.	Rs.	Rs.
1	20
2	..	24 0 0	..	..	..
3	25
4	..	50 0 0	..	..	45
5	..	175 0 0	..	..	..
6	..	535 0 0	..	..	244
7	..	100 0 0	..	..	..
8	25
9	28
10	..	195 0 0	..	..	85
11	..	90 0 0	..	..	..
12	..	127 8 0	..	..	75
13	..	100 0 0	..	..	100
14	..	45 0 0	..	..	20
15
16
Total	..	1,541 8 0	..	..	667

Out of 47 villagers only 14 admitted that they still owe something to their *mahajans*, and the other said they usually take loans from their *mahajans* and at present they do not owe anything to the money-lender, some of them have cleared their debts while others did not take any loans this year—but the latter are in minority.

9. (a) *Analysis of indebtedness*.—(See the five questions in the printed "Instructions to the investigator").—(1) The total amount of debt incurred by the villagers is Rs. 2,208-8-0 out of which the following proportion was incurred for the following different heads:—

- (a) for repayment of earlier debts—56 per cent.
- (b) marriage and other social occasions—2 per cent.
- (c) famine and other kinds of distress—nil.
- (d) payment of land revenue and rent—30 per cent.
- (e) purchase of seeds and manure—8 per cent.
- (f) purchase of improved implements—4 per cent.
- (g) sinking of wells and other improvements—nil.
- (h) non-payment of interest on due dates—nil.

(2) The usual rate of interest prevailing in this village is 25 per cent. If, however, the money is borrowed for a few months the *mahajan* at times and in certain cases agrees to lend at 2 per cent. per mensem. The general process of repayment is that the money has to be paid back to the *mahajan* with interest just at the time when it falls due. See question no. 3 above.

(3) The *raiya*s who cannot conveniently cultivate their holdings make over their *nakdi* lands to other *raiya*s on *bataia* system dividing the produce half and half between them and the under-*raiya*s. In case of *bhaoli* lands they generally return the holdings to the *Maliks* if they cannot manage to cultivate them. But several *raiya*s do not want to return their holdings to the *Maliks* as they fear they might not get them back again: and so they make over *bhaoli* holdings as well to other *raiya*s who gives half of the produce to the *malik* as rent and keeps the other half for himself, the real *raiya*s getting nothing for himself. *Nakdi* lands which have thus passed to other *raiya*s amount to 20 bighas, while *bhaoli* holdings thus transferred come to 10 bighas.

(4) Cultivation is considerably affected by such passing of lands from one *raiya* to other inasmuch as the interest in the holding becomes divided. The under-tenant does not take as much interest towards the improvement of the holding as the real tenant would take; while, on the other hand, if the land is *bhaoli*, the real tenant too neglects the holding as he does not get any produce out of it.

(5) The total debt amounts to Rs. 2,208-8-0 and out of this sum Rs. 1,240 is secured by registered mortgage on the land.

10. *Marketing*.—The produce is not sold to any particular purchaser. The villagers sell their produce to any purchaser with whom the terms

are satisfactorily settled. They sell it as often as they get into the necessity of money : they do not generally wait for any particular time. They store the produce in their own houses, their being no fixed storing place.

The villagers do not like the idea of building any combined storing place in the village where they can store their produce and wait till better price is offered to them. They say they have not got money enough to wait till they get better price : they have to sell their produce whenever they require money, and in case a *panchayati* store is started they would not be able to sell their produce every now and then as this would require the frequent sanction of the members who might not feel convenient to allow such frequent sellings.

The villagers are not obliged to sell their produce to any particular purchaser as they do not take any advances. They sell their produce to any body with whom they come to a bargain. The treatment of the purchaser is therefore always satisfactory, as the *raiya*s are at liberty to sell their produce to any body with whom they are satisfied.

The purchasers come to the village themselves, and the villagers do not usually go to the market.

11. *Cheaper credit*.—By getting money at a cheaper rate of interest the *raiya*s are likely to thrive : as they would save the money which they have to spend in satisfaction of the excessively high interests charged by the *mahajans*, and would utilise the savings in improving their lands purchasing sufficient number of cattle and implements for the purpose.

The village do not like the idea of borrowing more money if they would get it at cheaper rate, but they appreciate the idea of cheaper credit so far as they could be saved the trouble of paying very high interest to the *mahajans*. Their only aim, according to them, is to improve their cultivation if they would get cheaper loans.

12. *Use of savings*.—The *raiya*s of the village do not usually save so much money that they would bury it or purchase ornaments with it. They get just as much as can satisfy their creditors, feed and clothe themselves and purchase seeds and manures. If they save any amount above these expenses, they utilise it in purchasing more lands as their chief aim is cultivation. They do not deposit money in any banks nor do they purchase postal cash certificates of which they have little idea. None of them like to deposit money in the post-office savings bank just because they think that there is much *likha-parhi* about it.